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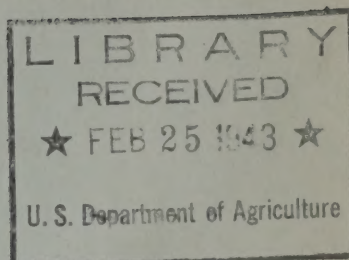
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BOOKKEEPING HANDBOOK

Prescribed for Use of
Rural Electrification Projects

DEPARTMENT OF AGRICULTURE

U.S. Rural Electrification Administration
Washington, D. C.

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Statement of the Scope
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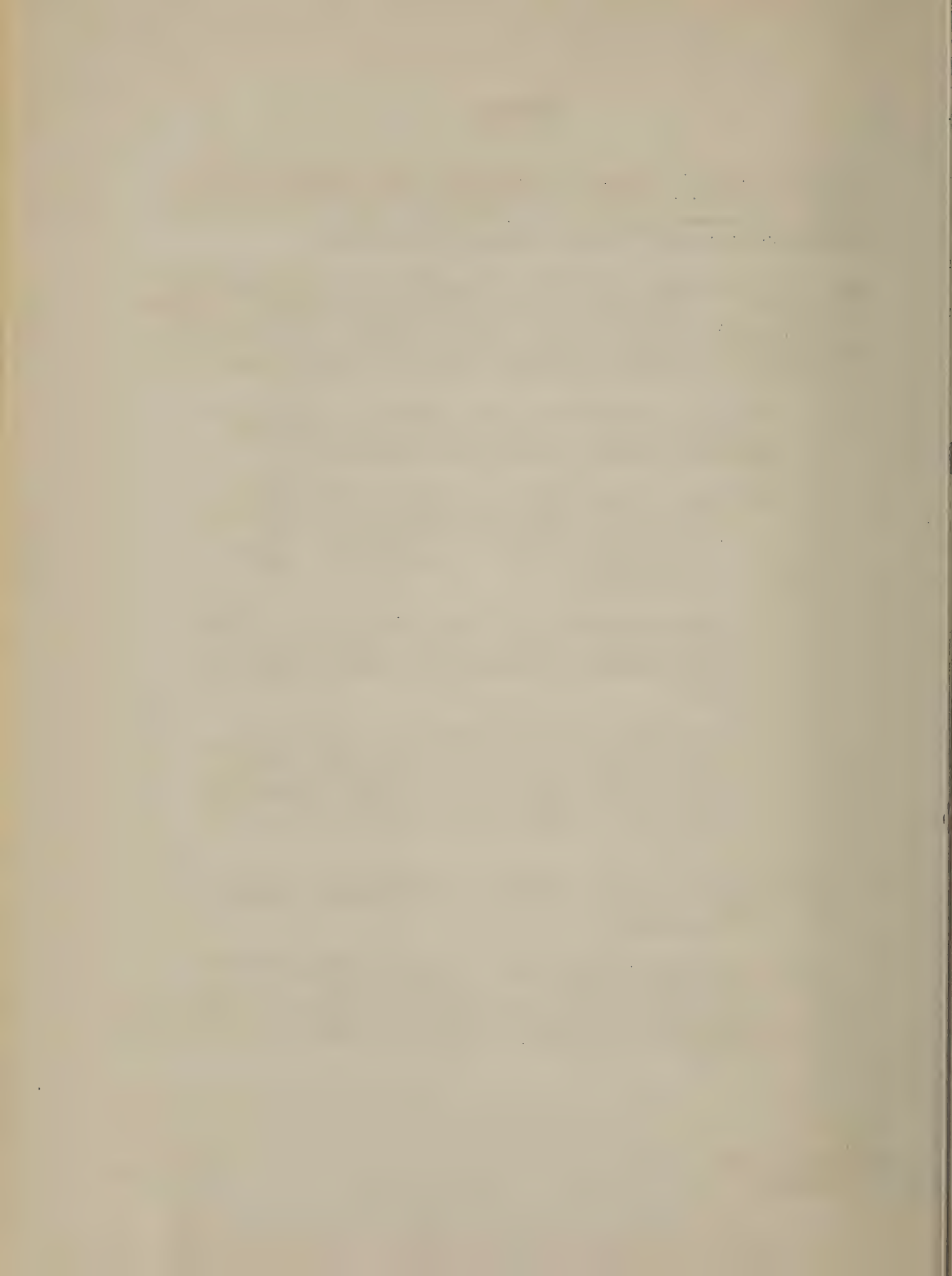
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FOREWORD

Since the original "Manual for Bookkeepers" was prepared many procedures have been simplified or "standardized" for the purpose of eliminating unnecessary work and to further coordinate the work of bookkeepers with that of REA examiners and auditors.

Many of the procedures described in this "Revised Bookkeepers Manual" are the result of suggestions made in the Superintendents' Conferences and Bookkeepers' Schools during the past two years and have already been described in bulletins sent to you by REA Divisions. The principal changes in methods or instruction booklets are as follows:

1. Revision of Requisition Forms (FI-121A-R), Expenditure Reports (FI-121B-R) and Budget Forms (EX-27R) and Instruction Booklet (FI-121R) to provide for -
 - a. Advances and reports on a "system" basis rather than by allotments, except that the accounting for such items as engineering, construction, etc., must be conducted on a basis in accord with contract requirements.
 - b. Cumulative as well as current information on these forms so that the local offices and REA have all available data concurrently in forms available to both.
 - c. The addition of new purposes (No. 14 and 15) in these forms which coordinate with simplified Work Order, Store Room, Inventory and other procedures. Bookkeeping procedures to suit these changes are described in Chapter 4 and other chapters of this manual.
2. Revised Work Order procedure as described in Operations Memorandums No. 2 and No. 59 is explained in Chapter 2 of this manual.
3. Work sheets whereby hours, miles and items of material from daily reports are transferred to Work Orders and bookkeeping records were described in Finance Division Bulletin No. 12 and are explained in Chapter 2 of this manual.



4. Post-card meter reading and billing, and collecting and recording procedures were described in the Supplement to Operations Memorandum No. 53 and in Finance Division Bulletin No. 10. These procedures are explained in Chapter 5 of this manual.
5. A revised "Uniform System of Accounts" was issued October 4, 1940, and sent to all borrowers. This revision coordinated our Classification of Accounts with the latest rulings of the Federal Power Commission and State Commissions and TVA. Account numbers have been changed throughout this manual as required to agree with the revised Uniform System of Accounts.
6. Check Registers and other bookkeeping and record forms which coordinate with each other and with standard procedures have been described in various Finance Division Bulletins and are mentioned in Chapter 3 and elsewhere. A book of sample forms will be issued shortly to supplement this manual.
7. Insurance arrangements have been simplified, and all outstanding insurance instructions have been collected in FI-114 and FI-132C.
8. Simplified methods of recording, reporting and paying Social Security and unemployment taxes are explained in Chapter 6.
9. A major change during the year was the establishment of definite procedures concerning the relations of auditors and local managements, whereby the auditors make reports and explanations available to superintendents and bookkeepers. These arrangements are described in Finance Division Bulletin No. 13.
10. In addition to the principal simplifications mentioned above, a great many changes have been made and described by bulletins issued during the year on operating reports, wiring and plumbing, load building, operating practices, etc.

This revision of the Bookkeepers' Manual is designed to describe methods and forms which will coordinate all these simplified procedures into a convenient and efficient bookkeeping system.

All of these matters will be discussed and further explained in the new series of bookkeeping schools and meetings to explain operating reports and their preparation. We hope that you will request further explanation of any points not clear to you and continue your constructive suggestions, which are the basis of all these simplifications.

P A R T I

CHAPTER 1

INTRODUCTION

TO BOOKKEEPERS OF RURAL ELECTRIFICATION PROJECTS

This manual explains the objectives of the project record system and how it is installed and maintained. We have tried to cover all of the questions which have been raised in the bookkeepers' schools during the past two years and to inform you of changes which have been made in REA procedures and of bookkeeping methods which have proved convenient and efficient. We hope the revised manual will assist you in your work as it is our desire to help you help yourself to greater achievements, from the standpoint of your personal welfare as well as the satisfaction of knowing that you are doing a good job.

IMPORTANCE OF THE RECORD SYSTEM

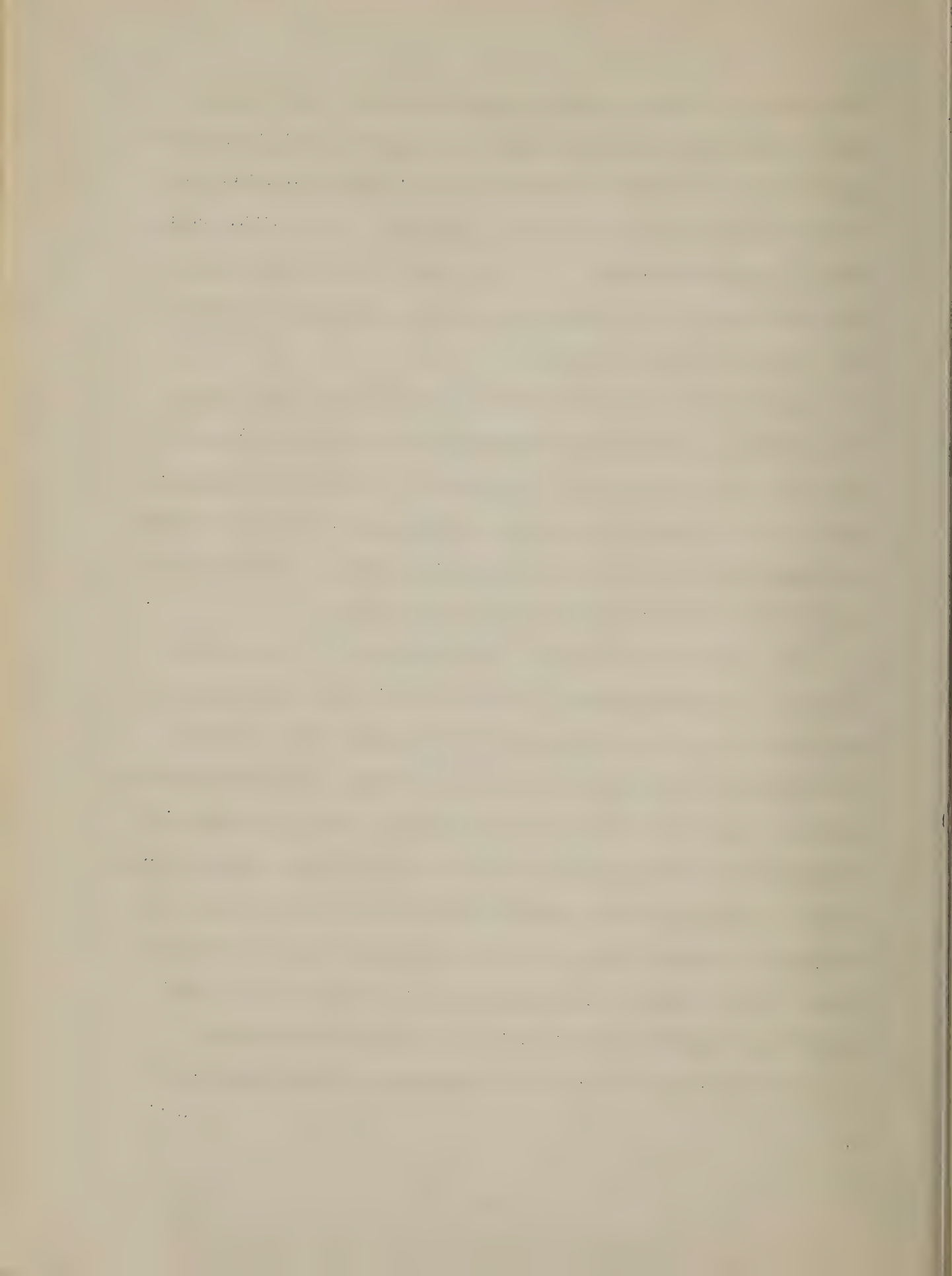
Uniformity in accounting procedures is essential to provide information required by the management and also because State and Governmental regulatory bodies require periodic reports prepared from records established in a manner to provide the desired information. Accordingly, the "Uniform System of Accounts Prescribed for Use of Borrowers" was established after lengthy conferences with officials of the Federal Power Commission and other agencies. We have just issued a revision of this system in which new accounts have

been added, old account numbers changed, and other minor changes made to bring our accounting system into closer conformity with that established by the Federal Power Commission under the Federal Power Act of Congress. It also meets the requirements of the various State Public Service Commissions. It is designed for use by all projects, large and small, and provides all necessary information required by the local managements or REA.

Good records are all-important. As time passes, they will reflect events in chronological sequence and the statistical data will serve as a guide to more efficient management and greater accomplishment. The determination of future policy requires complete, reliable, and immediately available facts, and these facts, for the most part, are obtainable only through the accounting records.

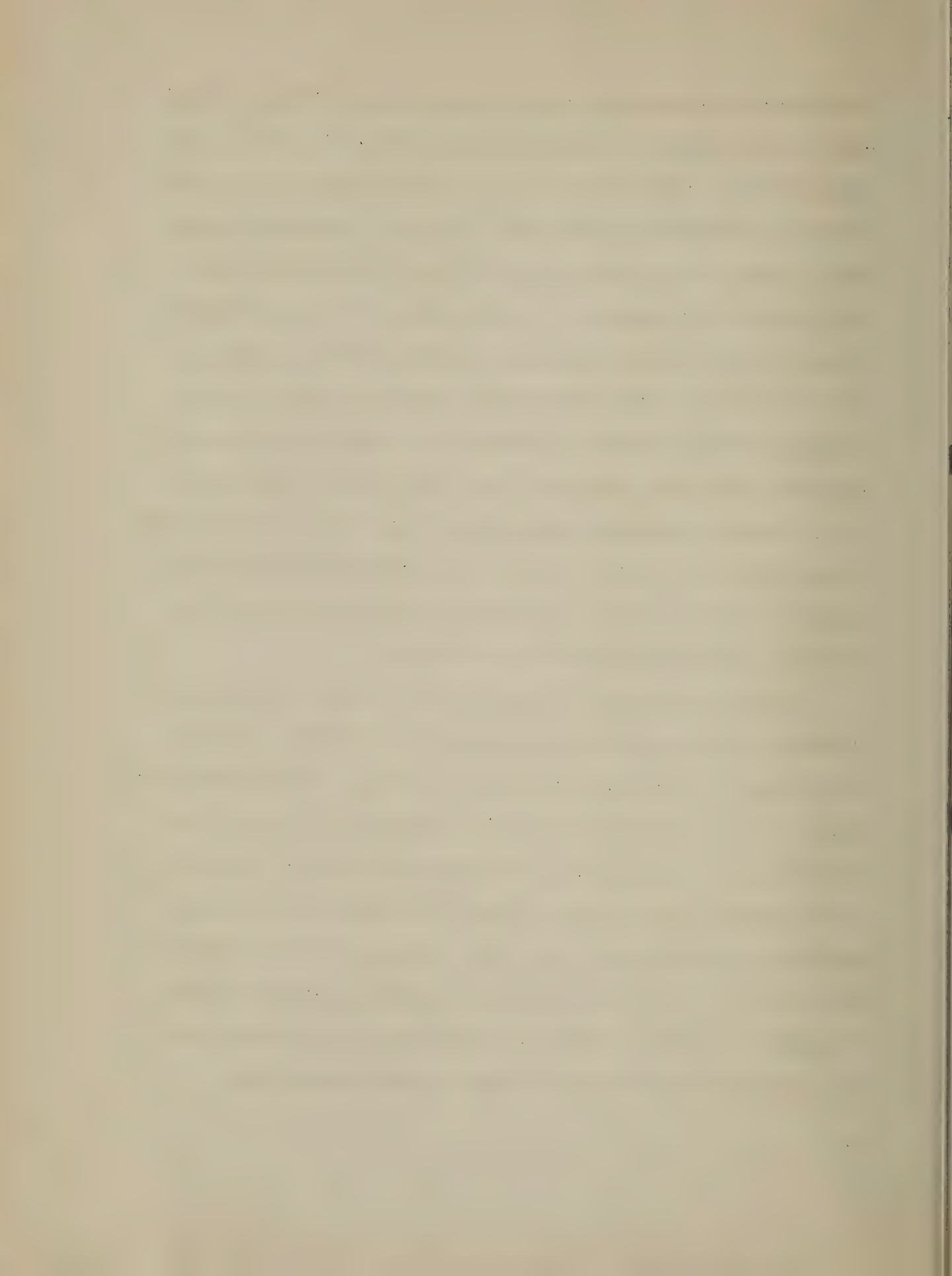
The project superintendent, with the counsel of the board of directors, is directly responsible for the successful operation of the association. He is interested in the trends of the business, increased revenues at minimum expense, meeting all obligations promptly, and many other questions of major importance. With good records the management can formulate plans to build line load and increase revenues, campaign for new members, plan for future contingencies, correct unbusinesslike methods, and in general efficiently direct the association. If the instructions in this manual are understood and followed, the record system will supply all required information.

You should keep constantly in mind that the future success of



the association depends in no small measure on the accuracy of your work and your attitude in performing your duties. You are not only in a position to analyze the results of operations and point to weaknesses in procedures and management, but also to accomplish a great deal in keeping the cooperative spirit keenly alive through your daily contacts with members. A pleasant disposition and a display of personal interest are contagious, and through such contacts line load can be built, new members secured, and houses wired. A host of good friends can be made by displaying a courteous and helpful attitude toward every member who visits the office of the cooperative. These are important considerations for, after all, your future success and the success of the whole rural electrification movement depends in a great measure on the part you play in furthering the interests of the cooperative which employs you.

Although bookkeepers have many duties, the accounting procedure is basically simple, and bookkeepers should not become frightened at the number of accounts contained in the Manual. Bookkeepers with adequate training and experience will encounter little difficulty in installing and maintaining the bookkeeping records. The instructions represent those procedures which bookkeepers have developed and found most convenient, and it will reduce your work and that of the auditors if you follow instructions closely. The use of sample illustrations or "T" accounts will prove beneficial in determining the proper entries necessary to record unusual transactions.



It is generally known that every cent of money advanced by REA must be accounted for. Funds advanced by the Government MUST NOT, under any circumstances, be disbursed for purposes other than those approved by REA. Copies of Financial Requirement Statements returned to the borrower from the Project Voucher Audit Section indicate approval or disapproval of advances requested for various purposes. It is important that this rule be strictly followed and that the accounting records reflect adherence to this policy. In no other way can there be a satisfactory reconciliation of the Borrower's records with those of REA. The procedure of accounting for funds advanced is extremely important and every care should be exercised in correctly recording transactions and in having all supporting receipts and data available.

The following suggestions will assist your work:

1. Learn what is necessary to be done and how to do it.
2. Record all transactions.
3. Record events promptly, giving sufficient information.
4. Do not destroy original entries or documents.
5. Endeavor to keep all records neat.
6. Keep office copies of all authentic data.
7. Retain in files, data to support all transactions.

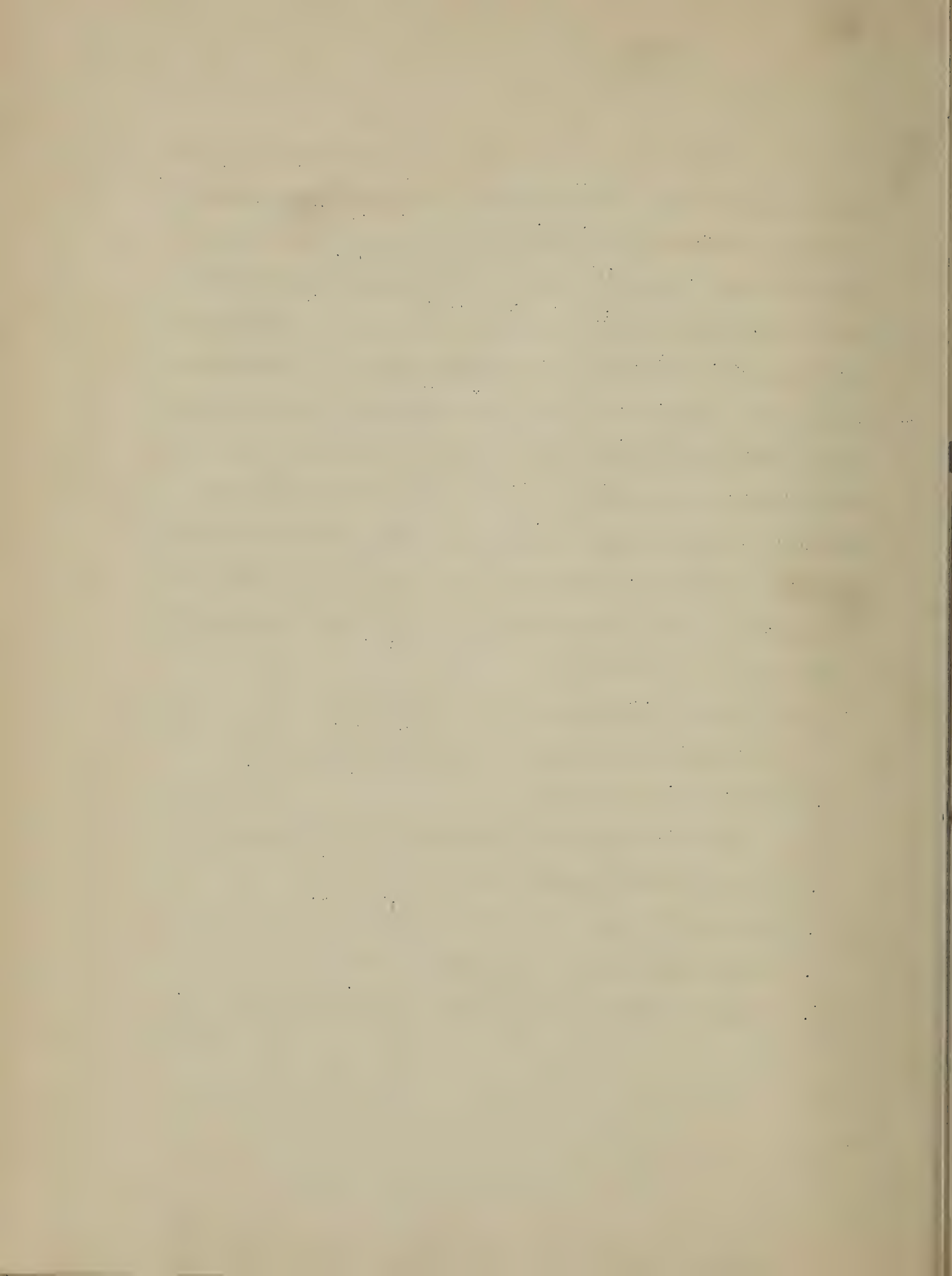
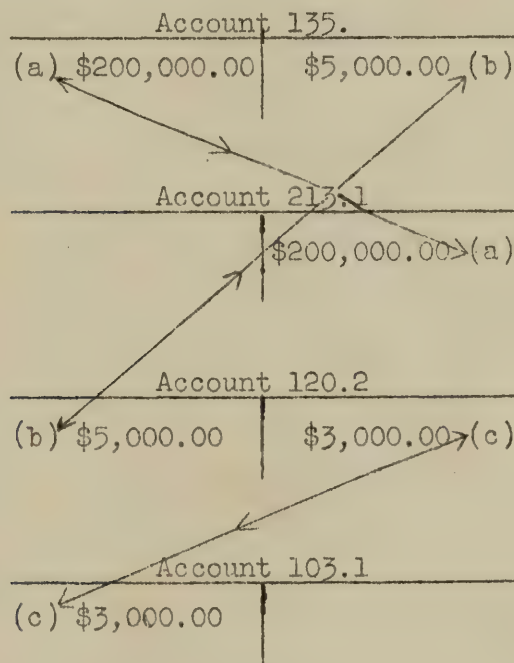


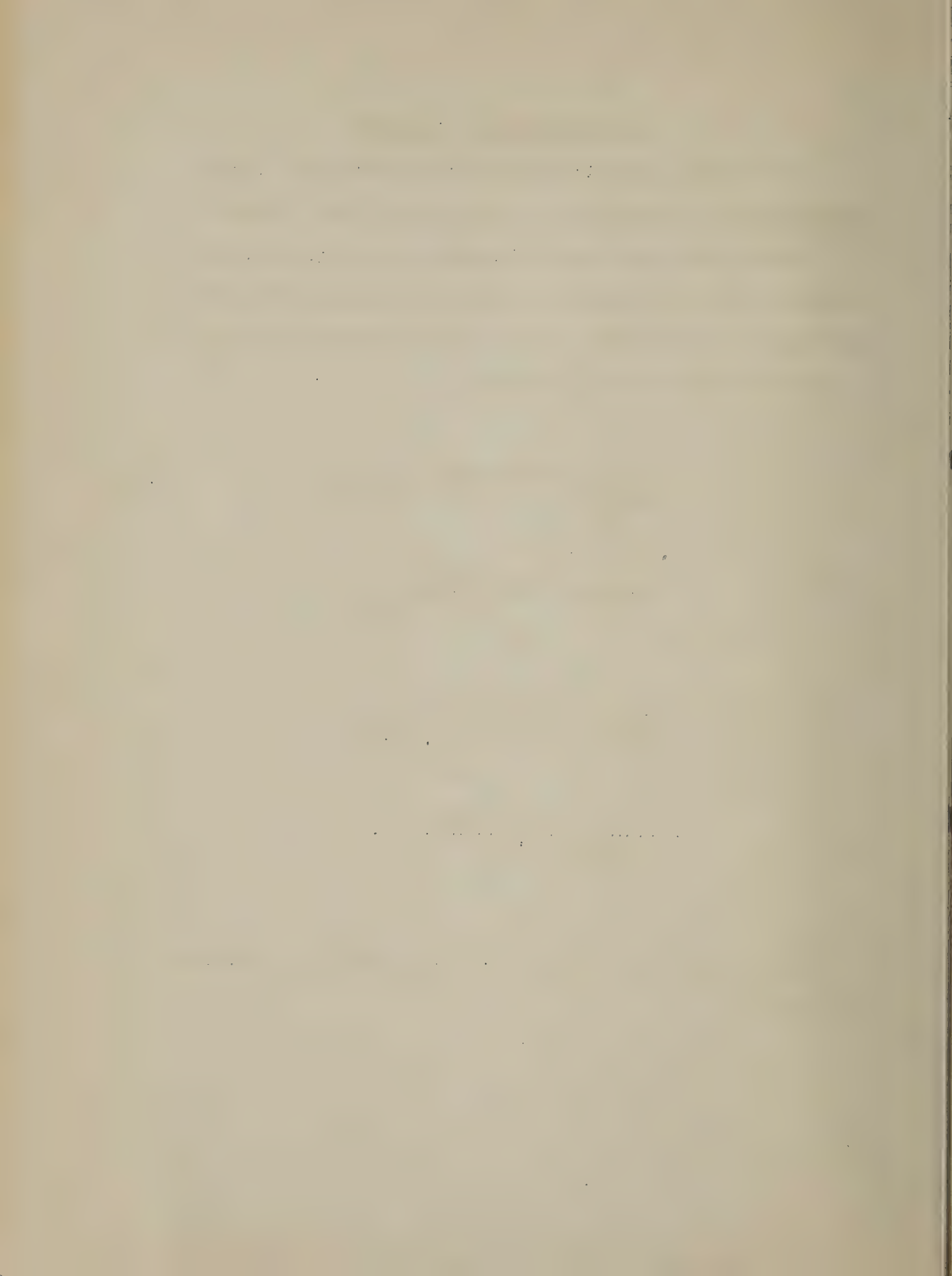
ILLUSTRATION OF "T" ACCOUNTS

The following illustration reflects the use of "T" accounts and the effect of transactions on the general ledger accounts:

Assume that a loan contract has been executed between the borrower and REA for \$200,000.00 and that an advance of \$5,000.00 has been received from REA of which \$3,000.00 has been disbursed to the contractor for line construction.



The above diagram illustrates the mechanics involved in recording the entries.



P A R T I

CHAPTER 2

PRE-ALLOTMENT ACCOUNTING PROCEDURE

1. The Importance of Records Prior to Allotment

During the period before the Superintendent and the Bookkeeper are employed, inexperienced sponsors, directors, and members of the cooperative as well as its attorney, Survey Coordinator, solicitors, and even its engineer, conduct many transactions described in Form EX-13R (New Projects) and Form EX-15 (Supplemental Projects). Funds are received and spent, and many important records of the association are created during this period.

Pre-Allotment Instructions (Forms EX-13R and EX-15) inform the projects how affairs of the cooperative should be conducted before the Bookkeeper arrives, but records are frequently neglected. The first duty of the Bookkeeper after the office is equipped should be to read the instructions in the Pre-Allotment booklets above mentioned, and immediately arrange these records in the best possible manner.

The Bookkeepers and auditors in many projects have wasted an enormous amount of time because poor records were kept during the Pre-allotment Period and because such records as did exist were allowed to remain scattered around with Directors, the Attorney, and others, instead of being assembled and filed in the cooperative's office. As soon as possible, the following records should be assembled in the project files: (1) Minutes of meetings, including copies of all resolutions, (2) contracts, (3) correspondence, (4) membership applications and easements, (5) copies of cash receipts for membership fees, (6) copies of receipts for disbursements,

(7) bank books and statements, and (8) bonds and insurance policies.

To avoid future difficulties, the affairs of the association should have been conducted as described in the following paragraphs. The Superintendent and Bookkeeper should review these paragraphs and do anything then feasible to complete and record preliminary transactions, as follows:

2. Fidelity Bond on Positions Handling Money

Before permitting the Treasurer or Survey Coordinator to make collections, these positions should be bonded. Please refer to Form FI-114, Page 3, Paragraph 5-B.

3. Receipt of Funds

Record in daily Cash Book the date money is received, the name of the person from whom the money is received, the purpose, and the amount. The total collections as shown on this daily record should balance with the amount of money deposited in the bank daily. This record should be kept in an inexpensive daily Cash Book.

4. Membership Collections

When membership collections are made, a receipt should be prepared in duplicate, the original of which will be delivered to the payee and the copy retained. A membership-card file should be established as soon as possible. Standard membership cards appear in the book of sample forms issued by REA.

5. Disbursements

Record the date of payment, the name of the payee, the purpose for which payment was made, and the amount. Duplicate receipted invoices should be secured and carefully preserved. Payments should be made by



check. Such a record may be in the form of an inexpensive Day Book or Journal, provided the entries are clear and understandable. Bank statements should be secured at the end of each month and carefully preserved. Samples of receipt forms, checks, daily cash collection sheets, etc., appear in the book of sample forms issued by REA.



P A R T I

CHAPTER 3

INSTALLATION OF THE REA UNIFORM SYSTEM OF ACCOUNTS

1. Books of Original Entry

The bookkeeping material will be assembled in the following order by the Bookkeeper or when an REA Auditor visits the project to help the Bookkeeper install the Accounting System:

A. Record of Cash Received

All membership fees and other collections are recorded on the Record of Cash Received sheets. At the end of the month, the Record of Cash Received sheet is totaled, and totals are brought down under the last entry in each column, ruled off, and posted to the General Ledger accounts.

B. Check Register

Each check drawn is recorded daily in the Check Register in numerical order. At the end of the month, the Check Register sheet is totaled, and totals are brought down under the last entry in each column, ruled off, and posted to the General Ledger accounts.

C. Accounts Payable Register

This record is for the purpose of recording all current bills unpaid at the end of each month. At the end of the month, the Accounts Payable Register sheet is totaled, and totals are brought down under the last entry in each column, ruled off, and posted to the General Ledger accounts.

D. Journal

The Journal is the book of original entry in which are entered such transactions as cannot be recorded in other books of original entry. It contains all adjusting and closing entries. Postings are made to the General Ledger directly from the Journal.

2. General Ledger

The General Ledger is the record to which all postings are made from the original books of entry and it contains final figures relating to assets, liabilities, revenue and expenses. With the assistance of the REA Uniform System of Accounts, the accounts in the General Ledger may be opened. A sheet will be used for each account, beginning with the Balance Sheet Accounts, omitting, of course, accounts under Production Plant or Generating and Transmission Plant unless the project has a generating plant or transmission lines. Most projects have distribution plants only.

3. Subsidiary Records

* A. Consumers Ledger

* B. Membership Records

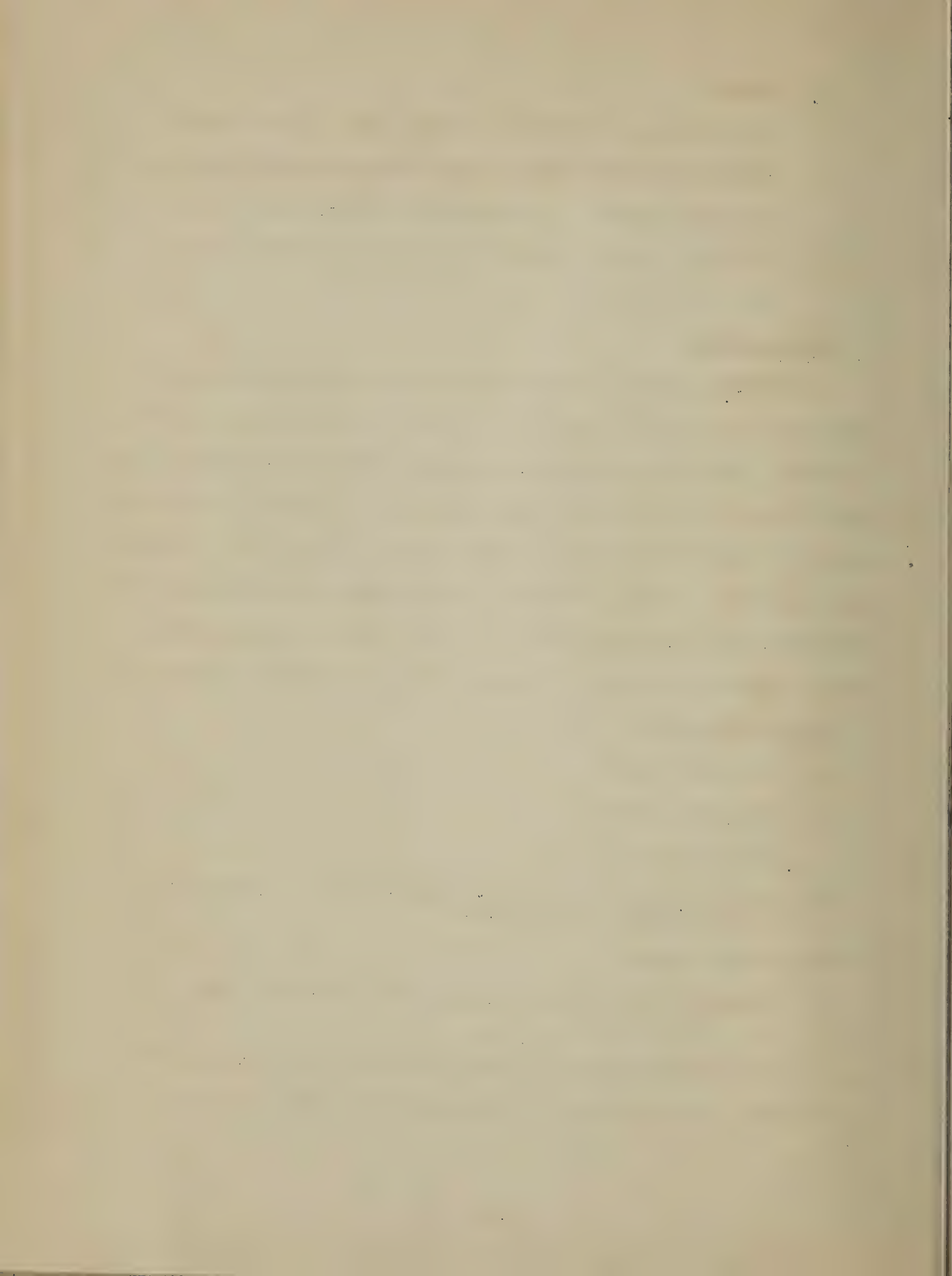
C. Notes Receivable Ledger

* D. E.H.F.A. Ledger (on standard ledger sheets or on special forms shown in sample book)

* E. Stores Records

* Samples of these forms appear in Book of Sample Forms issued by REA

In the Consumers Ledger will be included the individual accounts of consumers for the purpose of recording monthly energy bills and



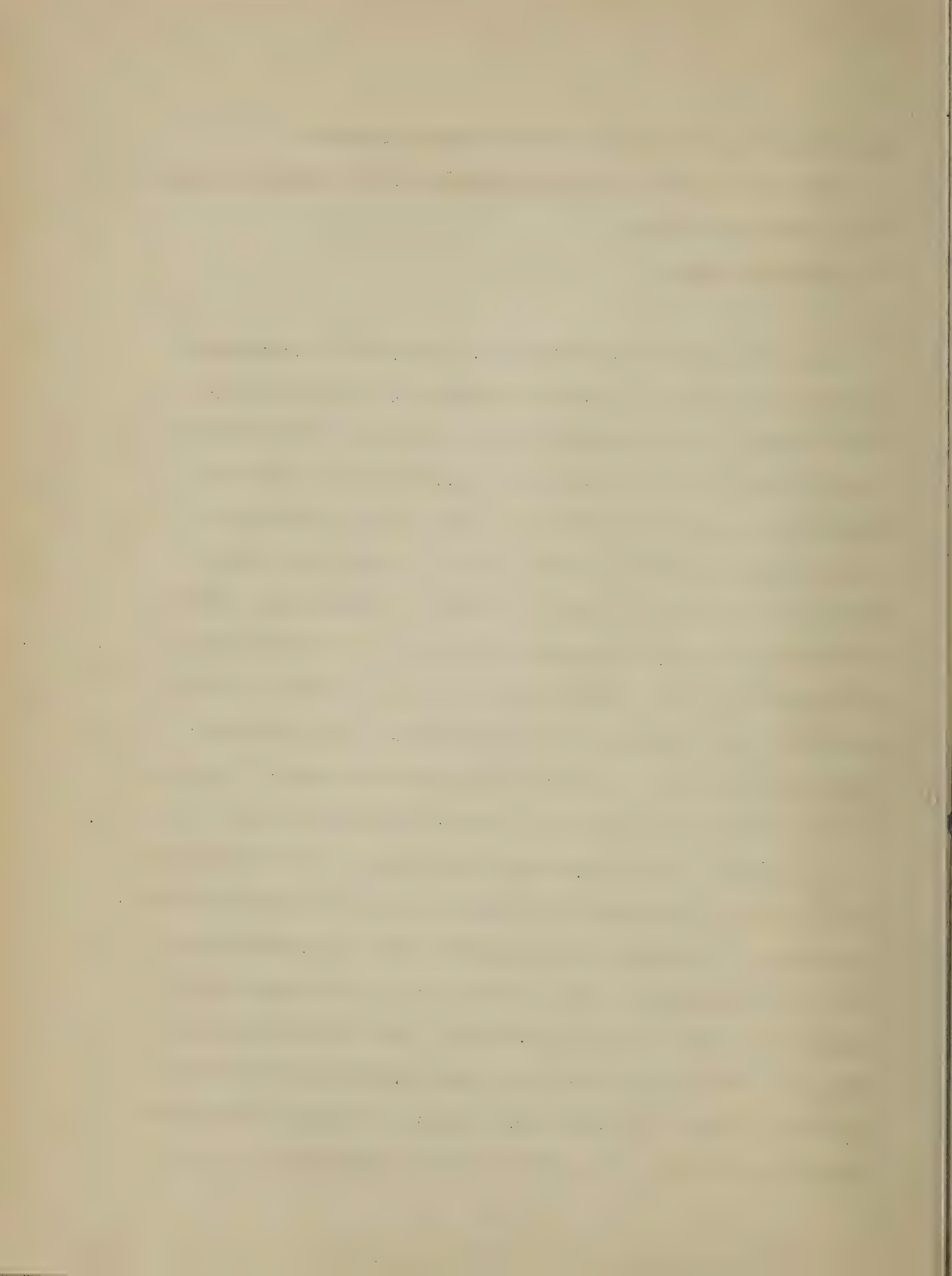
payments made by consumers for electric energy consumed.

Detailed information is given elsewhere in this Handbook in regard to all subsidiary records.

4. The Filing System

One of the first considerations in efficient office management is the filing system. Long before the execution of a Construction Loan Contract, Note and Mortgage, certain important correspondence, legal documents, and other essential information will accumulate. These must be preserved in systematic order, thereby making them easily accessible whenever needed. Without properly kept files, a great deal of time may be lost in searching for information, and the bookkeeper may be seriously embarrassed when unable to locate an important paper quickly. The equipment necessary to install a filing system may vary, depending on the requirements of the individual project officials, and the needs of the office as a whole. A typical list of equipment and supplies is included in Booklet FI-121.

In setting up the filing system, much depends on the Bookkeeper. The files should be arranged in a manner to make them simple and easy to maintain. Correspondence with members of the corporation should be filed in alphabetical order according to the individual names of members, while files containing contracts, correspondence from and to REA, etc., should be so labeled as to make identification automatic. To be able to locate instantly any information required denotes efficiency and alertness. In an effort to assist Bookkeepers in this

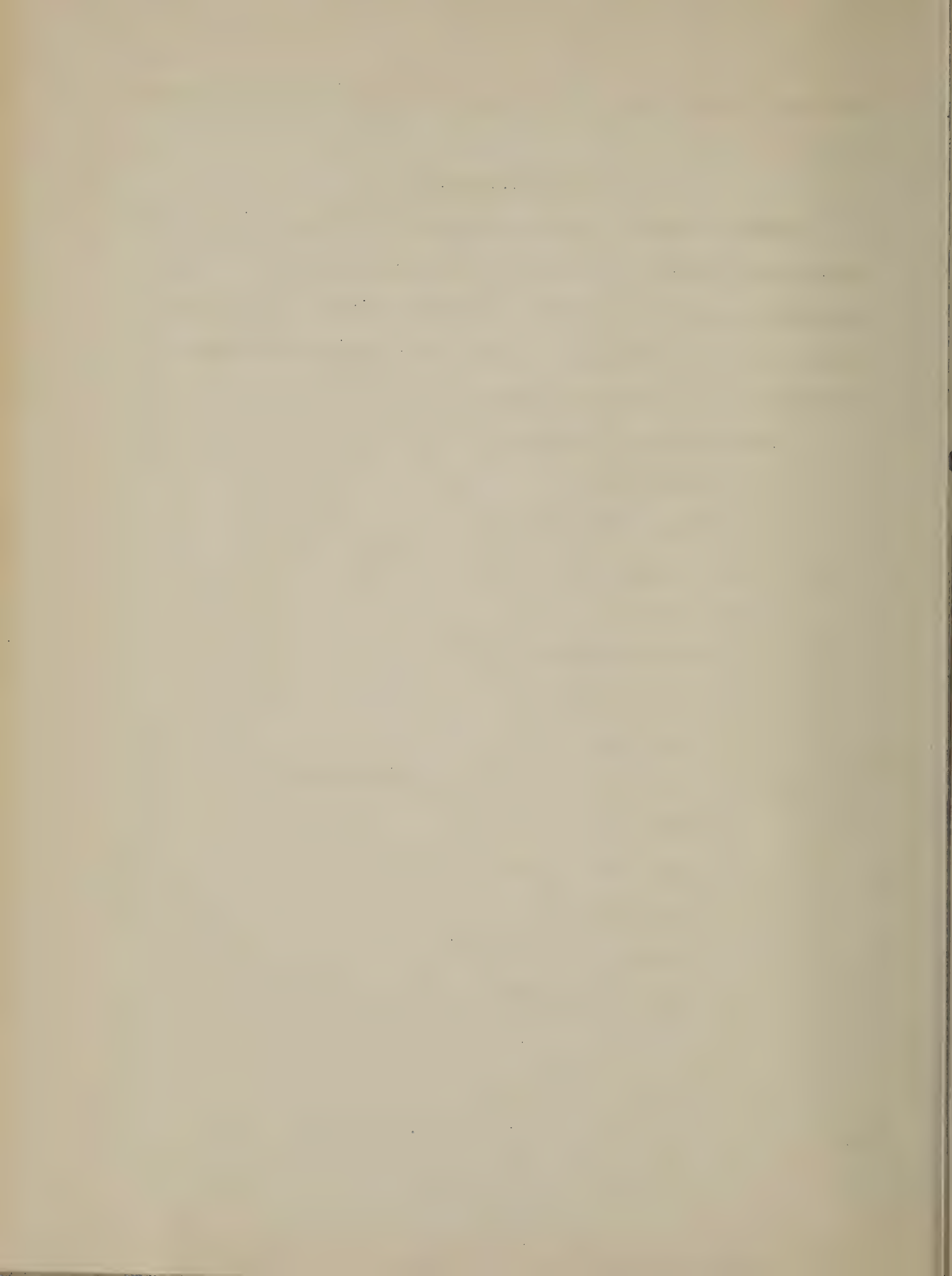


important function, the following suggested outline of a filing system is offered:

Filing Procedure

Lettered titles are suggested for use as an index or guide. Folders for each subdivision should be filed behind each title. All correspondence should be filed chronologically, that is, with the most recent date on top. Should additional subdivisions be necessary, do not hesitate to increase the suggested list.

1. Administrative (Guide Card)
 - (a) Administrator
 - (b) Deputy Administrators
2. Legal Division (Guide Card)
 - (a) Operations
 - (b) Rights of Way and Title
 - (c) Loan Contract
 - (d) State Laws
3. Applications and Loans Division (Guide Card)
 - (a) Director
 - (b) Application for Loan
 - (c) Field Supervisor
 - (d) Wiring and Plumbing Loan
 - (e) Self-help Procedure



4. Finance Division (Guide Card)

(a) Accounting

(1) Interest and Principal Payments

(2) Wiring and Plumbing Payments

(b) Banking and Credit Examining

(c) Project Voucher Audit

(1) Financial Requirement Statements

(2) Project Expenditure Statements

(3) Budget Control

(d) Auditing

(1) Auditing of Records

(2) Bookkeeping Procedure and Record Forms

5. Cooperatives' Operations Division (Guide Card)

(a) Director

(b) Regional Supervisor

(c) Equipment Service

(d) Utilization

(e) Home Electrification

(f) Cooperative Education

(g) Insurance and Safety

(1) Public Liability

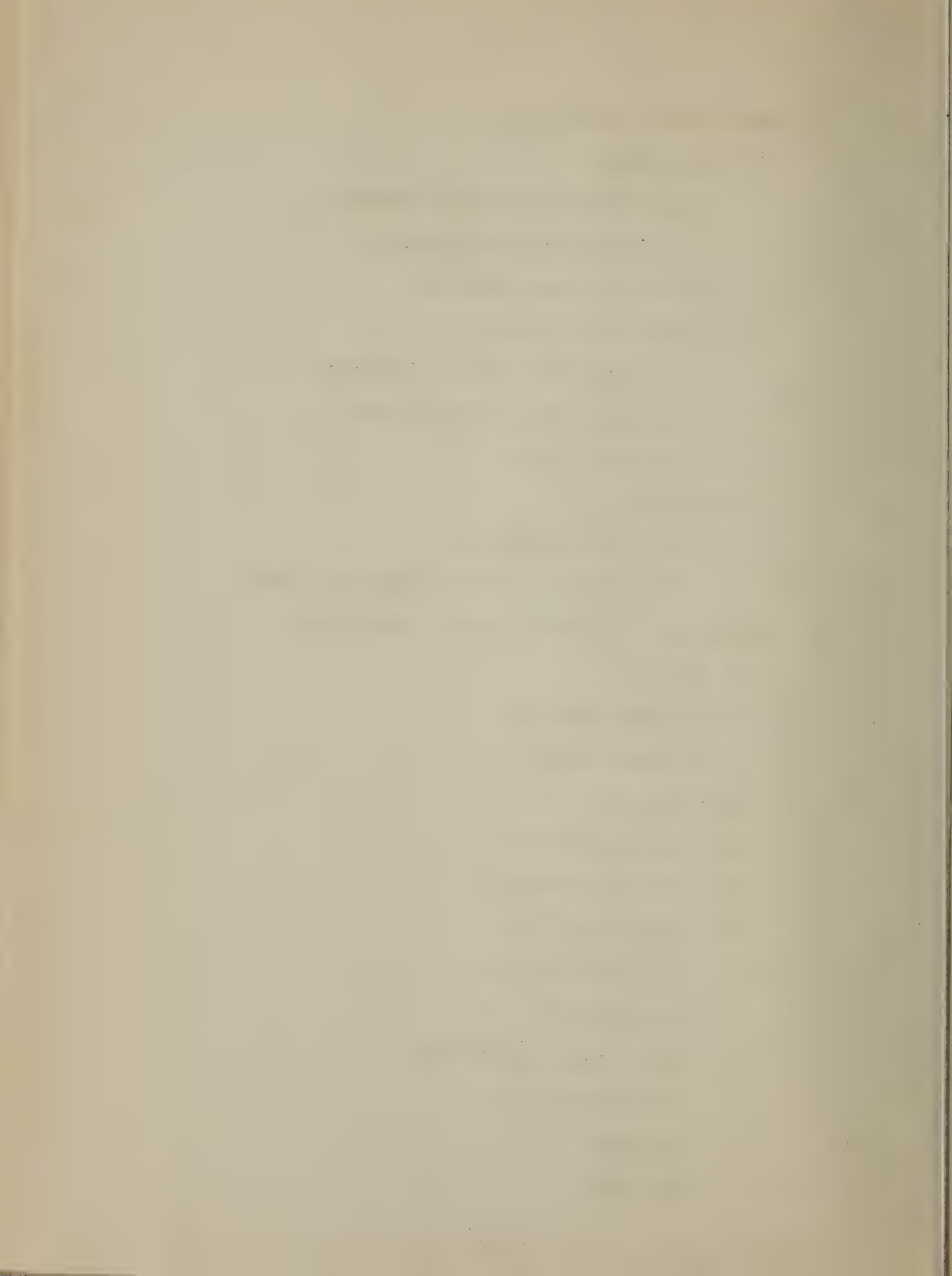
(2) Automobile

(3) Workmen's Compensation

(4) Fidelity Bonds

(5) Fire

(6) Other



- (h) Taxes
 - (1) Property
 - (2) U. S. Social Security - Unemployment
 - (3) U. S. Social Security - Old-age Benefits
 - (4) State Unemployment
 - (5) State Sales - Consumers
 - (6) State Sales - Other
- (i) Member-service Extensions
 - (1) Estimated Work Orders
 - (2) Completed Work Orders
- (j) Monthly Operating Reports
- (k) Personnel
- (l) Rates
 - (1) Retail
 - (2) Wholesale
 - (3) Wholesale Power Contracts
- 6. Information and Research (Guide Card)
 - (a) Publications
 - (b) Radio
 - (c) Information
- 7. Design and Construction Division (Guide Card)
 - (a) Director
 - (b) Regional Supervisor
 - (c) Industrial Power
 - (d) Buildings and Structures
 - (e) Inspection

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8. Contractor (Guide Card)
 - (a) Contract
 - (b) Change Orders
 - (c) Correspondence
9. Project Engineer (Guide Card)
 - (a) Contract
 - (b) Plans and Specifications
 - (c) Correspondence
10. Project Attorney
 - (a) Correspondence

Contracts:

Loan Contracts

Pole Inspection

Meter Contract

Telephone and Telegraph Agreements

Miscellaneous Contracts

Easements--REA requires that the instruments be collected and securely bound in covers, along with copies of the right-of-way certificate in which they are listed and in the order therein listed.

Office Records:

Membership Record (Cards are filed alphabetically.)

Meter Records (Cards are filed numerically according to location, such as "Meters in Service," "Meters Removed from Line," "Meters in Stock not yet Installed," and "Meters Retired.")

Transformer Records (Cards are filed numerically similar to meter card system.)

Bank Statements (filed monthly with cancelled checks and deposit slips.)

Invoices - Paid

- (1) Construction) (filed alphabetically by months)
- (2) Operation)

Invoices - Unpaid

- (1) Construction) (one folder for each)
- (2) Operation)

Daily Cash Collections (filed by months)

Daily Reports - Labor, Material and Transportation

Monthly Summaries

- (1) Payrolls)
- (2) Materials) (filed by months)
- (3) Transportation)

Stores or Inventory Record (Card File - Alphabetically)

Miscellaneous Correspondence (filed alphabetically)

Wiring and Plumbing Loans:

House - Wiring and Plumbing Documents (complete folder for each member having W. & P. Loan)

E. H. F. A.

- (1) Contracts
- (2) Remittance Reports
- (3) Delinquent Reports

Folders with visible tabs should be used for all files containing letter or legal-size records. When possible, the contents of each file should be held intact with a fastener. Miscellaneous correspondence should be filed in alphabetical order and individual folders inserted

when necessary. Adequate card systems, properly indexed, should be kept for membership, meter, and transformer records.

All incoming correspondence should be noted before it is filed as to the action taken, that is, no answer required or answered on a certain date.

PART I

CHAPTER 4

CONSTRUCTION ACCOUNTING

1. Contract (Note and Mortgage)

After the General Ledger accounts have been established and all prior transactions entered, the entry to record the loan is in order. Assume that a Loan Contract, Note, and Mortgage have been executed with REA for \$100,000.00, dated January 1, 1948.

This note will be recorded by making the following Journal entry:

Debit Account 135	Allotment Available	
	From REA	\$100,000.00
Credit Account 213.1	Special Construc-	
	tion Obligation	\$100,000.00

To record the REA Note executed January 1, 1938

2. Financial Requirement Statements and Expenditure and Commitment Reports

Instructions for requesting funds from REA and accounting for such funds are fully explained in Booklet FI-121; therefore, the procedure will not be repeated here. However, it is important that office records be so kept that this information may be accurately compiled.

3. Depositories

The Construction Loan Contract provides that the borrower must designate a bank to act as a depository for funds to be advanced under the terms and provisions thereof.

It is suggested that a supplemental depository also be selected through which advances can be cleared.

Depositories should be selected with a view toward maximum degree of safety and convenience. The regular depository should be a member of the Federal Deposit Insurance Corporation and of the Federal Reserve System, and should be large enough to handle conveniently any amount advanced to the cooperative.

Banks selected as depositories should be officially designated by the Board of Directors before being requested to prepare the Statement of Condition.

The Project will receive detailed instructions as to the selection of depositories and their approval by REA.

4. Voucher Checks (See Book of Sample Forms issued by REA.)

It is required that Voucher Checks be used for disbursing funds. A supply of these checks should be purchased before any funds are disbursed. These checks should be numbered consecutively by the printer, and when one is defaced or voided, it should not be destroyed but should be filed in numerical order with cancelled checks. A detailed description should be made on the memorandum portion of each check issued (the duplicate to be retained in the office file) to show for what purpose funds have been disbursed.

It is recommended that two sets of Voucher Checks be obtained, preferably in different colors, one for use in disbursing General Funds and the other for disbursing Special Construction Funds after advances have been received from REA. The detailed description on the voucher portion of each check is important in identifying the entry in the records.

5. Cash Receipts and Disbursements

A. Advances

All funds received from REA and all reimbursements to Special Construction Funds from General Funds will be entered on the Record of Cash Received and Budget Control - Special Construction sheets (Form FI-177 Cl-2) immediately upon receipt of check and before deposit is made. The advances from REA will be distributed to the various columns in accordance with the purposes for which funds are advanced.

At the end of the month, the Record of Cash Received sheet is ruled off. The total cash received and deposited is posted to the debit side of General Ledger Account 120.2 - Cash, Special Construction Fund, and to the credit side of Account 135, Allotment Available from REA. Refunds are credited to the particular account to which the charge was originally made.

B. Disbursements - Special Construction

Record of Checks Drawn (Check Register - Special Construction Account)

All payments made from Special Construction Funds must be by voucher check. When a check is issued, entry should be made on the Check Register. All checks should be entered on this sheet promptly, as they are issued. The various disbursements are segregated in columns provided for general purposes, which are the same as those scheduled in the first columns of the Financial Requirement Statement and Project Expenditure Forms. You will note that

in each column of the Check Register, there are shown two numbers, one corresponding with the purpose numbers on the revised Financial Requirement Statement, and the other with the General Ledger Account numbers. The numbers corresponding to the items in the requisition form will assist you in properly allocating disbursements to the correct column of the Check Register. The other number will assist you in making the monthly summary for the purpose of posting to the General Ledger.

It will be noted that construction costs are charged to Account 103.1 Construction Work in Progress - Special Construction. This account will be distributed to the specific plant accounts by the REA auditor when he makes a Cost Distribution Audit of your records.

All materials and supplies purchased will be charged to Account 131.1, Material and Supplies, and transferred to the specific capital or Work in Progress Account when they are actually used on the line. Labor and other costs incurred in connection with line extensions or force-account work and paid from Special Construction Funds will be charged to Account 103.3, Construction Work in Progress - Force Account Construction and Member Service Extensions. (See instructions on Work Orders.)

C. Bank Reconciliation

The total of all receipts have been posted to the debit side of General Ledger Cash Account 120.2 and the total disbursements have been posted to the credit side of this Account. The

difference between the total debits and credits in this account is carried to the balance column. This balance is the basis of reconciling the cash account with the bank statement. This reconciliation should be made by the Bookkeeper and shown in detail on the back of each bank statement or on a separate sheet which should be securely attached to the bank statement and filed. For example:

Bank Balance per Books August 31, 1939			\$5,000.00
Deposits Month of September 1939			<u>4,000.00</u>
Total as of September 30, 1939			\$9,000.00
Disbursements (Checks issued)			
Month of September 1939			<u>6,000.00</u>
Bank Balance per Books September 30, 1939			\$3,000.00
Balance per Bank Statement,			
September 30, 1939	\$3,500.00		
Less: Outstanding Checks:			
Check #10	\$300.00		
Check #15	<u>200.00</u>	500.00	<u>\$3,000.00</u>

D. Cancelled Checks

Bookkeepers should examine all cancelled checks for endorsements; signatures and irregularities should be corrected at once by the bank. If a payee fails to endorse a check and the bank returns the cancelled check, the bank should obtain the necessary endorsement at no expense to the depositor. In the case of local payees, the bookkeeper may, if desired, secure proper endorsement without having the check run through the bank again. After the necessary examination has been made, the bank statements, cancelled checks, deposit slips, and reconciliation sheets should be filed together in the filing cabinet.

Note: Some banks, instead of issuing monthly statements, merely rule up the pass book indicating the total amount of checks paid and the new balance. This is of little or no value. In such instances, the Bookkeeper should request the bank to submit a statement form, along with the cancelled checks, showing a detailed account of all checks paid and deposits made during the month. This will eliminate much confusion in reconciling the bank balance.

E. Petty Cash

It may be found more convenient to make small purchases of office supplies from cash rather than by check. If so, a systematic arrangement for handling petty cash must be worked out, based upon the following principles:

1. A resolution should be adopted by the Board of Directors establishing a Petty Cash Fund, and should state the amount to be maintained, the person to be responsible for its proper accounting, and definite rules for all disbursements therefrom.
2. One person should be made responsible for this fund, preferably the bookkeeper.
3. All disbursements of petty cash should be made by the duly designated person in accordance with definite rules laid down by the Board of Directors and enforced by the Superintendent.

If a petty cash fund is to be arranged, it is suggested that the amount of \$10.00 or \$15.00 be established. This may be done by drawing a check for the amount, say \$15.00 on the General Fund Account.

The entries would be:

Debit Account 120.3 Cash - Petty Cash	\$15.00
Credit Account 120.1 Cash - General and Operating Funds	\$15.00

The total in this account will remain the same unless the amount of Petty Cash is increased or decreased, or unless the fund is discontinued. The cash will be kept in the office and used in paying small bills. It is suggested that any bill amounting to less than \$1.00 be paid from this fund.

A Petty Cash Voucher should be prepared for each disbursement from the fund, showing to whom the payment was made, the amount and purpose, date of payment, and the General Ledger Account affected.

When the Petty Cash Fund (cash on hand) has been reduced to a point where it is necessary to replenish it, a list of these Petty Cash Vouchers will be prepared, typed, and securely attached to the vouchers. The total of these vouchers will represent the amount of the check to be drawn on the General Fund Account; also, the total of these vouchers plus the amount of cash on hand must equal the amount of the Petty Cash Fund - in the illustration above, \$15.00. The entry on the Check Registers will indicate payment to Petty Cash and the appropriate expense accounts affected will be debited.

6. Accounts Payable Register - Special Construction (Form FI-177 Bl-2)

Under the new procedure only those invoices which remain unpaid at the end of the current month will be considered as Accounts Payable and entered in the Accounts Payable Register.

The following is a sample entry of bills remaining unpaid at the end of the month:

Contractor's Invoice	\$25,000.00	
Engineer's Invoice	1,000.00	
Invoice for Office Supplies	25.00	
Total Accounts Payable		\$26,025.00

Each of the items above listed should be entered individually in the Record of Accounts Payable Register and charged to the particular accounts to which they apply. The totals of the debit columns are posted to the specific General Ledger Accounts; the credit is posted to Account 222.1 Accounts Payable - Special Construction.

When checks are issued in payment of these accounts, entries will be made in the Check Register and posted to the General Ledger. The entries will be a debit to Account 222.1 and a credit to Account 120.2.

List of Accounts Payable

On the first day of each month, the Bookkeeper should prepare a list of all unpaid accounts from the Accounts Payable Register and present it for approval of payment by the Board of Directors at their regular meeting.

7. Construction Costs

A. Contractor's Payments

When paying contractor's invoices, it is essential that the invoice be checked for correctness. The engineer should check the quantity and the unit price, and certify that the work has been performed, but the extensions should be checked in the office for accuracy and to justify the payment to the satisfaction of the

bookkeeper. Payment should be made for only 90 percent of the invoice, the remaining 10 percent being retained until the construction is completely finished and REA has given the project authorization to pay the amount retained.

If the contractor's invoices are paid during the month they are received, the entry for the remittance is made in the Check Register. However, the 10 percent withheld must be entered in the Accounts Payable Register so that the full obligation will be recorded in the books. In case the invoice is received at the end of the month and paid the following month, then the full amount of the invoice is entered in the Accounts Payable Register, and the portion that is remitted later is charged to Accounts Payable in the Check Register.

B. Meters

Requests for funds for meters can be expedited if the project will indicate whether or not it has been instructed to purchase meters under the contract or group plan.

Payment of invoice covering initial shipment of meters or shipment for a specific section should be charged to Account 103.1 Work in Progress - Special Construction or directly to Account 360. It is assumed that the full shipment will be installed when the section is fully energized. At the time the Cost Distribution Audit is made by the REA auditor, the cost of all meters, whether installed or not, will be transferred to Account 360.

Meters, like transformers, will never be charged into Account 131.1 Materials and Supplies (see Finance Division Bulletin No. 14).

The original cost of a meter and its installation follows the specific meter until it is permanently retired from service.

When a meter is permanently retired from service due to destruction or obsolescence, the installed cost thereof shall be credited to Account 360.

The cost of removing and resetting such meters is an operating expense and shall be charged to Account 761.1 Operations - Labor.

Meter-record cards shall be so kept that the cooperative can furnish information as to the number of meters of various capacities in service and in reserve as well as the location of each meter. This can be accomplished by dividing the meter cards into sections and classifying them as "Meters in Service," "Meters Removed from Line," "Meters in Stock Not Yet Installed," and "Meters Retired."

C. Meter Installation

Funds under this purpose should be requested only for meter setting. The expense of meter reading, meter testing and maintenance of meters after energization of the primary line is an operating expense and is paid from General and Operating Funds.

Funds should not be requested under Meter Installation for time spent by the lineman on member extensions or other force-account work.

D. Pole Inspection

Funds for this purpose are advanced under contractual provisions approved by REA. If this service is to be performed by the construction contractor, funds should be requested under Item 1-A, Payment to Contractor.

E. Legal

(a) Legal Fees

As much as 40 percent of the approved legal fee may be requested for the project attorney on the first requisition, but not more than 10 percent is allowed on any subsequent request up to 80 percent, when approval of the REA Legal Division is necessary for payment in full. It is the policy of REA not to advance the attorney's fee in full until such time as he shall have performed all of the legal work for which he is responsible, particularly with respect to the submission of satisfactory proof of compliance with the terms of the Loan Contract with regard to Right of Way.

(b) Legal Expense

The expenses of the project attorney for attending litigation hearings and damage suits before boards, State utility commissions, or other governmental bodies may be paid from funds set up for this purpose, as well as for the publication of legal notices, notice to bidders, registration fee with the Secretary of State or other public bodies, charter fees, costs of certificate, charter, recording mortgage or deed of trust to REA, and notary fees other than those applicable to easements. No part of the funds advanced under

this classification may be expended for personal expenses of the attorney, such as traveling expense, meals, postage, etc., without written approval of the REA Legal Division.

F. Engineering

(a) Engineering Fees - Contract

All requests for engineering fees covering Plans and Specifications should be accompanied by a statement as to whether or not approval has been given by the Division of Design and Construction for this service, which statement should also indicate separately each section or allotment for which this service has been performed. Additional engineering fees are advanced in accordance with the contract provision covering such service. Payments to the engineer must not be made until REA has approved and advanced funds for such expenditure.

(b) Engineering - Force Account

When all or any part of engineering is done by force account at a fixed rate per week or month, such funds must be requested and approved by REA before payment is made. The project must maintain detailed records showing name of employee, period covered, and work performed.

Columns are provided both in the Check Register and in the Accounts Payable Register for recording obligations to the engineer, whether on the contract or force-account basis. A column is also provided for the engineering-inspection fees.

G. Right of Way

(a) Pre-Allotment Expense

The budget allowance for this purpose includes expenditures from membership funds during the Pre-Allotment Period, which have been approved by REA. Engineering expense incurred prior to the granting of allotment shall be included under this purpose. Legal expense and the legal fee of \$200.00 on the original allotment and \$100.00 on supplementary allotments should not be requested under this purpose, as these items are included in the budget for Legal Fees.

(b) After-Allotment Expense

Under this purpose shall be included expenses in connection with procuring easements and rights of way, such as salaries, recording fees, maps, postage, telephone, notary bonds and notary commissions, searching of titles, paper and stencils for easement forms, cost of obtaining easements or permits for crossing highway and railroads, and all legal expenses relating to easements which were incurred after the Pre-Allotment Period.

H. General Overhead

Under this purpose funds may be requested for the superintendent's and office salaries, office supplies and expense, including bookkeeping and record forms, transportation expense, taxes, project signs, and other miscellaneous overhead costs incurred during the construction period. After energization of the lines, these items become operating expenses and are paid from the General and Operating Funds.

If supplemental allotments are granted after the primary lines

have been energized, some of these expenses may be prorated between construction costs and operating expense. However, this arrangement must be approved by REA.

I. Directors' Fees and Mileage

Before the payment of fees and travel expense may be made under this purpose, a resolution by the Board of Directors authorizing such payment must be adopted and submitted to REA, in accordance with General Order No. 103. When this expenditure is reported, the treasurer should certify to the dates of meetings, members attending each meeting, and the number of miles traveled by each.

J. Insurance During Construction

To protect the association and its members, employees, and the public, it is of basic importance that insurance be placed immediately after incorporation and after the Construction Loan Contract is signed, as described in the following insurance instructions:

Form FI-114, Pre-Allotment Insurance - Arranged at the
Incorporating Meeting

Form FI-112C

Insurance Memoranda Nos. 2 to 8, inclusive

Insurance obtained during the Construction Period is charged to Account 103.1 Work in Progress - Special Construction. For information pertaining to requests for funds from REA for the payment of such insurance, please refer to Instructions on Financial Requirement Statement FI-121.

At the completion of construction, the unexpired insurance premiums paid from Special Construction Funds are transferred to the Prepaid

Insurance Account, to be prorated monthly to the operating expense accounts. This transfer will be made by the REA auditor when the Cost Distribution Audit is made.

K. Miscellaneous Construction Charges

Information regarding requests for funds under this purpose is detailed in Instruction Booklet FI-121.

Expenditures covering office furniture and equipment, truck, tools, and work equipment are charged directly to the plant accounts (Accounts 372, 373, and 377). Depreciation on this equipment during the construction period is charged to Account 103.1, Work in Progress - Special Construction. When construction is completed and the lines energized, depreciation on these items is an operating expense.

L. Interest During Construction

(a) Formula for Calculating Interest

(These data are provided for purposes of information. Actually, interest due is computed by the Finance Division and the amount thereof is indicated on statements issued to the project by the Finance Division.) Every item should be checked and found correct before becoming part of your bookkeeping records. This is a bookkeeper's prime responsibility, regardless of the source of information.

The interest charged is figured for the actual number of days the borrower has the use of the money. The date the check is issued by the United States Treasury is the governing date from which interest must be figured. By the actual number of days, we mean the specific days within each interest period as set forth in the Bond or Note; that is, if the period is monthly, the interest is computed as 28/365ths of the yearly rate for February, 30/365ths

of the yearly rate for 30-day months, and $31/365$ ths of the yearly rate for 31-day months in non-leap years. During leap years, the interest computations are $29/366$ ths, $30/366$ ths and $31/366$ ths, respectively. Notes or Bonds calling for semiannual payments are likewise computed with the actual number of days in the semiannual period as the numerator and the actual number of days in the year as denominator. When it so happens that an interest period falls partly in a non-leap year, the period is divided into two parts and interest is computed separately for the portion of each year; then the two results are added to obtain the charge for the period.

In order to give you a still better idea for the calculation of the interest, our method is illustrated by a hypothetical case as follows:

The interest period is September 1 to October 1, 1939. An advance was made September 11, in the amount of \$5,000.00. The interest rate is 3 percent.

$$\$5,000.00 \times \frac{20 \text{ (No. of days 9/11 to 10/1/39)}}{365} \times .03 = \$8.22$$

This explanation will enable you to check interest statements, but if further information is desired, please do not hesitate to contact the Finance Division.

Interest statements will be received from REA each month. The interest is computed only on funds advanced to the borrower.

(b) Accumulated Interest Statement

This type of interest is accumulated and will be set up on the books as a liability to be liquidated during the amortization

period. During the construction period, the Journal entry to record this interest statement is as follows:

Debit 103.1 Work in Progress - Special Construction
Credit 229.4 Interest Accrued - Deferred - Special
Construction

After a section of line has been completely energized, the Journal entry to record this accumulated interest is as follows:

Debit 530 Interest on Long-term Debt
Credit 229.4 Interest Accrued - Deferred - Special
Construction

This account 229.4 remains open on the borrower's books until the principal payments become due and payable. The first principal payments are applied against this account.

M. Power and Telephone Agreements

No advance of funds can be made on Power and Telephone Agreements until this service has been approved by REA. Therefore, submission of these agreements for approval should always precede requests for funds for this purpose.

N. Material

Funds for the purchase of materials should be requested in accordance with the instructions contained in Operations Memorandum #59.

When a shipment of material is received, the merchandise should be carefully checked with the invoice and the purchase order to determine the correctness of the quantity, unit price, and extensions.

It is suggested that a small rubber stamp be secured, on which would be listed the various steps of verification such as:

Date Received _____
Material Checked _____
Quantity Checked _____
Extensions Checked _____
Approved for Payment _____
(Signature and Date)

The invoice would be stamped when received, and as each step is completed, the person doing the verifying would place his or her initials in the space provided.

The next step is recording the date on the Stores Record card, a sample of which will be found on page 36. (Samples of plain and visible-system cards appear in the Book of Sample Forms Issued by REA.)

It is imperative that accurate records be kept of all materials and supplies. Every item of stock removed from the storeroom must be accounted for. This is accomplished by means of daily reports, as hereinafter described. It is also important that accurate records be kept of salvaged materials.

As described in Operations Memorandum #59 and Engineering and Operations Memorandum #2, materials used for line extensions or alterations and improvements in distribution system increase the value of the electric plant; therefore, these are capital expenditures. Such expenditures are paid from Special Construction Funds and not from General and Operating Funds. All materials purchased are charged to Account 131.1 Materials and Supplies. As the material is used, this account is credited and the proper account is debited with the cost of such material. For instance, if the material is used in Force Account and Member-Service Extensions, the debit should be made to Account 103.3. Therefore, the

STEFFENS RECORD

Article_

Warehouse

Class, Size, or Type -

Bin Number-

[illegible]

materials and supplies in the storeroom should always be in balance with General Ledger Account 131.1 Material and Supplies.

A physical inventory of materials on hand should be taken about every three months to ascertain whether any considerable difference exists between the book amounts shown by Account 131.1 Materials and Supplies and the value established for the materials on hand.

O. Labor and Other Expense

Under this purpose are requested funds for labor, supervision, transportation, and other expense involved in Force Account Construction. These expenditures are charged to Account 103.3 Construction Work in Progress-Force Account and Member Service Extensions, and must be supported by individual receipts, receipted payrolls or certified statements, as explained in Booklet FI-121, when reported on the Project Expenditure Statement. Therefore, loss of time and annoyance will be eliminated if the project secures duplicate receipts at the time the expenditure is made.

P. Work Orders

Unless detailed reports of labor, material, transportation, and other costs are submitted daily, it is impossible to prepare correct work orders. The paragraphs following explain this more fully.

Finance Division Bulletin #12 prescribes various daily-report forms to be used in compiling accurate data pertaining to the personnel and operation of the project.

The daily report lists the hours of labor pertaining to operation and maintenance of the lines and to construction, the material erected

on the line or salvaged from retirement of the line, and the miles traveled by truck.

These daily reports of hours of labor, units of material, and miles traveled by truck are summarized in a monthly report and the costs computed and distributed to the proper accounts and to work orders. During the process of construction, these costs are charged to Account 103.3 Construction Work in Progress - Force Account and Member Service Extensions. At the completion of construction, the data are broken down into units of property and transferred to the particular plant accounts affected. The total labor, material, and transportation costs shown in Account 103.3 should agree with the completed work orders covering such construction work. (For further details on Work Orders, see Chapter V, Part II, of this Handbook.)

P A R T I

CHAPTER 5

GENERAL AND OPERATING ACCOUNTING

1. Cash

A. Definition

By "General Funds" is meant funds other than advances received from REA.

You have learned the procedure necessary in proper construction accounting. Due to the use of the Construction Work in Progress accounts, the recording of transactions during construction is relatively simple. However, when the project has advanced to the operating stage, the accounting problems become more involved. It is important, therefore, that special attention be given to General and Operating Fund accounts.

General and Operating Fund - Records

The general and operating records required in maintaining the operating accounts are similar to those outlined under "Special Construction." Subsidiary ledger and card records may be necessary in certain instances, such as membership cards, subsidiary ledger for EHFA accounts, etc.

The important groups of accounts required in General and Operating Accounting are:

- (1) Cash Accounts
- (2) Electric Plant (Capital and Other Asset Accounts)
- (3) Liability Accounts
- (4) Income Accounts
- (5) Expense Accounts
- (6) Surplus Accounts

These will be discussed in the order named.

B. Cash Accounts

By referring to the Uniform System of Accounts, it will be noted that the following cash accounts are prescribed:

- (a) Account 120.1 Cash - General and Operating Funds
- (b) Account 120.2 Cash - Special Construction Funds
- (c) Account 120.3 Cash - Petty Cash
- (d) Account 120.4 Cash - General and Operating Funds - Savings
- (e) Account 120.5 Cash - Special Installation - Wiring and Plumbing
- (f) Account 120.6 Cash - Transfer of Funds
- (g) Account 121.1 Consumers' Deposit Fund
- (h) Account 121.2 Installation Loan Payment Fund - Wiring and Plumbing
- (i) Account 121.3 Special Deposits Funds - Miscellaneous
- (j) Account 114.1 Long-term Debt Reserve Funds
- (k) Account 114.2 Maintenance and Replacement Cash Reserve Fund

Account 120.2 Cash - Special Construction Funds has been fully covered elsewhere in this handbook.

Accounts 120.5 Cash - Special Installation - Wiring and Plumbing, and 121.2 Installation Loan Payments Fund - Wiring and Plumbing are treated in the chapter entitled "Uniform System of Accounts Prescribed for House Wiring and Plumbing Loans."

C. Account 120.1 Cash - General and Operating Funds

This is the principal cash account. All collections from members and sources other than REA advances will be entered in this account. This will include membership fees, donations, loans, collections from

consumers for electric energy, revenues derived from the sale of materials, etc. (Consumers' Deposits as a guarantee of payment of bills will be carried in Account 121.1 Consumers' Deposit Fund.) All collections will be recorded on "General and Operating Fund Cash Received" sheet (Form FI-177A1), and distributed to the proper columns. The totals of the various columns will be posted to the credit side of the appropriate General Ledger Accounts, and the total cash received will be posted to the debit side of Account 120.1 Cash - General and Operating Fund.

Example: Assume that \$3,750.00 is collected for the following purposes: electric energy sales, \$2,200.00; membership fees, \$1,000.00; donations, \$500.00; and \$50.00 for changing and disconnecting services. The entry on the Record of Cash Received - General Fund would be:

Debit Account 120.1 Cash - General and Operating Funds	\$3,750.00
Credit Account 125.1 Accounts Receivable Consumers	\$2,200.00
Credit Account 204 Capital Stock - Membership Subscribed	1,000.00
Credit Account 270 Capital Surplus	500.00
Credit Account 615 Miscellaneous Electric Revenue	50.00

Note: The individual accounts in the Consumers' Ledger should be credited with the amount of payments as they are received.

D. Daily Collections and Deposits

Deposits should be made each day at a convenient time. Collections received after daily deposits have been made are carried over until the following day.

If the borrower has a good safe (see Operations Memorandum No. 52, concerning the desirability of good safes and low cost under group-purchasing arrangements) the current day's collections may be deposited the

following morning or dropped in the bank's safety-deposit vault if one is available. If it is necessary for the money to be deposited before the closing of the bank, the day's business should be closed in time to balance the Cash and make the deposit. Any collections received after the closing hour should be included in the following day's business.

Much time and trouble can be averted if the cash collections are listed on a Daily Cash Analysis sheet, indicating the name of the person making the payment and the account affected by the collection. The two sample forms of Cash Analysis sheets shown on pages 43 and 44 give a distribution of the various sources from which collections may be made, and a miscellaneous column to take care of such items as may appear only occasionally. It is recommended that you adopt the form best suited to your needs. The total collections as shown on the Cash Analysis sheet should equal the amounts deposited in the bank or banks.

If the Daily Cash Analysis sheet is not used, an adding-machine tape should be made of individual payments by consumers and other sources. This tape should be dated and securely fastened to the duplicate energy bills or stubs, duplicate receipts, and duplicate deposit slip, and filed for future reference. The total of these receipts should equal the daily deposit. If this procedure is followed, the total collections should be summarized on the duplicate deposit slip, classifying them as to source, such as:

Membership Fees	\$ 500.00
Accounts Receivable - Consumers	750.00
Refund from Special Construction Fund	<u>2,500.00</u>
	\$3,750.00

DAILY CASH COLLECTIONS

Date _____

Name	Energy Collec- tions	Account Rec. Other	Member- ship Fee	Con- sumers' Deposit	Wiring & Plumbing		EHFA Col- lec- tions	Misc.		Total
					Prin- cipal Pay't.	Interest Pay't.		Acct. No.	Amt.	
	125.1	125.2	204	227	124.2	526				

BANK DEPOSITS:

Bank \$ _____ Account No. _____
Bank \$ _____ Account No. _____
Bank \$ _____ Account No. _____

DAILY CASH COLLECTIONS

General Fund and Wiring and Plumbing Account

Date

[illegible]

A duplicate receipt book is necessary to record collections other than those for electric energy sales. The receipt should show the amount, the date, and the purpose; one copy is given to the consumer, and one is retained for the files.

E. Disbursements - General and Operating Fund

Check Register - General and Operating Fund (Form FI-166), will take the place of the form previously used, which was known as a "Record of Checks Drawn." You will use this form for recording all checks drawn on the General and Operating Fund. This new form provides columns for the various expense accounts and construction costs paid from General Funds. A miscellaneous column is provided for such transactions as happen only occasionally. It will be necessary to summarize this column when posting to the General Ledger. At the end of the month, the sheet is ruled off, the total debit columns posted to the various General Ledger Accounts, and the total cash column posted to the credit side of Account 120.1 Cash General and Operating. Both the debit and credit columns of Social Security taxes are posted to Account 228.3.

F. Accounts Payable - General and Operating

All invoices received should be checked as to accuracy of quantity, unit price, and extensions. A rubber stamp should be secured, listing the verifications above mentioned, and a space provided for the initials of the employee checking the invoice. When invoices are received, they should be stamped and the person checking the material should initial them as certification of their accuracy. Such invoices with copy of purchase order attached should then be filed in a folder labeled

"Unpaid Invoices - General and Operating." When these invoices are paid, they are attached to the copy of the voucher check and filed in alphabetical order under "Paid Invoices." All current invoices remaining unpaid at the end of the month are recorded in the Accounts Payable Register, Form FI-177A2. The total of the columns of this sheet are posted to the various accounts in the General Ledger. Subsequently, as these items are paid, the date and the check number should be inserted in the columns provided for such data. Each month, this register is reconciled with the General Ledger Account by totalling the amounts of the unpaid or open items in the Accounts Payable Register, which should equal the amount shown in Account 222.2 Accounts Payable - General and Operating. Care must be exercised when these particular invoices are paid to see that the checks are charged to Accounts Payable and not charged a second time to the particular expense accounts.

G. Consumers' Deposits

On most projects, a deposit is collected from the consumer as a guarantee for payment of electric bills. The collections are deposited in a separate bank account and held intact. The entry to record such deposits is a debit to Account 121.1 Consumers' Deposit Fund, and a credit to Account 227 Consumers' Deposits. All collections received for consumers' deposits should be deposited in a separate bank account under the title of "Consumers' Deposit Fund."

2. Materials and Supplies

A. Materials and Supplies Purchased

Materials and supplies purchased for operation and maintenance of the lines and paid from General and Operating Funds are charged to

Account 131.1 Materials and Supplies. As these materials are used, this account is credited and the specific expense account is debited. There may be times when part of the material is used for construction, in which case the procedure described under Construction should be followed.

In order to determine the actual amount of materials used in the various types of operations, it can readily be seen that accurate records must be maintained.

Finance Division Bulletin #12 includes a daily report to be submitted by the lineman or the foreman, as to the amount of material used. It is urged that the procedure prescribed be followed, as it is vitally important that the bookkeeper be furnished this information.

B. Sale of Materials - Non-Operating Revenue

Materials sold from stock on hand must be recorded in the proper accounts, all necessary details being furnished.

For instance, sale of material in the amount of \$100.00 is made on account; the Journal entry to record this sale would be as follows:

Debit Account 125.2 Accounts Receivable - Other	\$100.00
Credit Account 526 Non-operating Revenue	\$100.00

Note: If only a small number of accounts are involved, the necessary details may be shown in the General Ledger Account 125.2. However, if there are 15 or 20 of such accounts, a subsidiary Accounts Receivable Ledger should be maintained.

If sales amounting to \$50.00 were made for cash, the entry should be:

Debit Account 120.1 Cash - General and Operating Funds	\$50.00
Credit Account 526 Non-operating Revenue	\$50.00

Assuming that the merchandise sold for \$150.00 actually cost \$135.00, the entry to transfer the material sold from the inventory account to the proper expense account should be as follows:

Debit 527	Non-Operating Revenue Deductions	\$135.00
	Credit 131.1 Materials and Supplies	\$135.00
	or	
	Credit 131.2 Materials and Supplies Held for Resale	135.00

The credit to be used in the above entry is dependent upon the account which was debited when the original purchase was made.

If an expense or commission for making this sale amounted to 50 percent of the profit, a check would be issued for the expenditure and entered in the Check Register as follows:

Debit Account 527	Non-Operating Revenue Deductions	\$7.50
	Credit Account 120.1 Cash - General and Operating Funds	\$7.50

C. Scrap or Surplus Material

Any scrap material left over by the contractor belongs to the contractor, but in the event that he agrees for the project to retrieve such materials for its own benefit, there need not be any entry made at the time such scrap material is placed in stock, provided it is not intended to use any of the material for operation, maintenance, or capital additions. Assuming that \$100.00 worth of scrap materials are retrieved and sold as junk for cash, and that it cost \$25.00 to assemble the materials, the entries would be:

Debit Account 120.1	Cash - General and Operating	\$100.00
	Credit Capital Surplus	\$75.00
	Credit Labor	25.00

If it is found that any of the materials are usable in maintaining the line or for additions to the electric plant, such materials should

be evaluated and placed in stock. The entries would be:

Debit Account 131.1 Materials and Supplies
Credit Account 270 Capital and Surplus

D. Purchase Discounts

Purchase discounts are not separately classified in utility accounting practices. A great deal of money is saved by taking advantage of all available discounts, as, for example, the usual discount for cash with order or within ten days, quantity discounts, etc. However, if discounts are procured, the invoices are recorded in the net amounts. If discounts are not procured, the gross amount of invoices will be entered. Failure to take advantage of discounts reflects poor management. In many business enterprises, discounts pay a considerable part of office expense.

3. Matured Interest on Long-term Debt (After Energization)

If current interest to the extent of \$1,000.00 is due and payable monthly, the following entry is made when the interest statement is paid:

Debit Account 530 Interest on Long-term Debt
Credit Account 120.1 or other Cash account from which
payment is made

On the maturity date if it is not paid, a Journal entry should be made

to:

Debit Account 530 Interest on Long-term Debt	\$1,000.00
Credit Account 226.1 Matured Interest - Special Construction	\$1,000.00

When this interest is paid:

Debit Account 226.1 Matured Interest - Special Construction	\$1,000.00
Credit Account 120.1 Cash - General and Operating Funds	\$1,000.00

4. Long-term Debt

A. Matured Long-term Debt

Assuming that a principal payment of \$1,000.00 is due but not paid on the maturity date, the Journal entry will be:

Debit Account 213.1 Special Construction Obliga-	
tion	\$1,000.00
Credit Account 225.1 Matured Long-term Debt	
Special Construction	\$1,000.00

To set up the matured and unpaid obligation.

When the check is issued to cover the matured and unpaid item, the Cash Book entry will be:

Debit Account 225.1 Matured Long-term Debt	
Special Construction	\$1,000.00
Credit Account 120.1 Cash - General and	
Operating Funds	\$1,000.00

B. Advance Payments on Long-term Debt

Several borrowers have accumulated substantial sums of money not needed for current expenses or emergency reserves and have used these excess funds to make advance payments on their mortgage notes.

In accordance with General Order No. 133, these advance payments may be used as a cushion of credit to be applied against regular principal payments coming due monthly or kept as a reserve to meet a future payment when general funds are not available.

If such advance payments are made, the entry to record the transaction is made in the check register as follows:

Debit Account 132.3 Prepayment on Long-term Debt	
Credit Account 120.1 Cash - General and Operating	

This prepayment will remain on the books as an asset until such time as the amount is applied against a current principal payment.

At such time, it will be necessary to adjust the account by means of a journal entry as follows:

Debit Account 213.1 Special Construction Obligation
Credit Account 132.3 Prepayment on Long-term Debt

To apply advance payment to current principal payment due.

Note: It is recommended that regular monthly principal payments be paid from current operating funds so long as such funds are available, and that the cushion of credit be reserved for a "rainy day."

If, in accordance with previous instructions, advance payments have been charged to Account 213.1 Special Construction Obligation and the remittance has not been applied to a specific principal payment, an adjusting journal entry should be made to bring the records into conformity with this procedure, such as:

Debit Account 132.3 Prepayment on Long-term Debt
Credit Account 213.1 Special Construction Obligation

To adjust entry made on _____.

5. Operating Revenue Accounts

A. Meter Reading, Billing, and Collecting

Careful consideration has been given every phase of the meter-reading, billing, and collecting processes on REA systems. Much study and discussion have been given this subject by the various divisions of REA, and after careful weighing of all phases of the operation, the post-card meter-reading and consumers' ledger-card method are believed to be the most satisfactory from the standpoint of efficiency, minimum expense, and maximum results.

This procedure is fully covered in Supplement #1 of Operations Memorandum #53, issued August 15, 1940.

(a) Meter Reading

The meter-reading post cards are mailed to the members with the request that they read their meters on a specific day. The meter-reading information should be available to the bookkeeper in sufficient time for preparing the bills and posting the sales on or before the last day of the month.

(b) Billing

Bills are prepared from the meter-reading post cards returned by the members. These bills are posted to the consumers' ledger cards and an adding-machine tape run showing that the bills and the postings to the consumers' ledger cards are in agreement.

(c) Consumers' Ledger Cards

Each consumer is allotted a ledger card and an account number. (The different numbering systems are described in Finance Division Bulletin No. 10.) These cards should be of different colors to readily distinguish the classification of consumer. The cards should be set up in numerical sequence according to the numbering system adopted.

As soon as the meter-reading post cards have been received and the bills prepared, the consumption, amount due, and other data are posted to the consumers' ledger card.

The borrower should decide on a procedure to be followed in dealing with members who are negligent in returning the meter-reading cards as requested. These members should be billed for the minimum, average, or highest bill, whichever method the project adopts.

Adjustments to these accounts will be necessary when the actual readings are received.

(d) Recording Consumers' Sales

After energy bills have been computed and recorded, the next step is the classification and recording of the sales. Assuming that the tabulation is as follows:

Rural Farm Sales	\$1,600.00
Rural Non-Farm Sales	100.00
Commercial and Industrial Sales	60.00
Public Building Sales	40.00
State Sales Taxes	36.00
	<hr/>
	\$1,836.00

the journal entry would be as follows:

Debit Account 125.1 Accounts Receivable	
Consumers	\$1,836.00
Credit Account 601.1 Rural Sales - Farm	\$1,600.00
601.2 Rural Sales - Non-Farm	100.00
602.1 Commercial and Industrial	
Sales - Stores, Garages,	
Enterprises, etc.	60.00
602.2 Commercial and Industrial	
Sales - Other	40.00
228.5 Accrued State Sales Tax -	
Consumers	36.00

To record sales of energy and State Sales Tax for the month of January.

When collections are received from consumers, the entry is recorded in the Cash Received Journal and is a debit to Account 120.1 Cash - General and Operating, and a credit to Account 125.1 Accounts Receivable - Consumers.

When a bill is paid by a member, the bill should be marked "Paid," the member's copy returned to him, and the stub retained by the cooperative. At the end of the day, the total of the stubs, plus

other receipts, should equal the cash for deposit.

Recording Sales for Members Billed but not Served

In many instances the membership application form provides that the member shall pay the minimum bill when electric service is made available. A few members fail to wire their homes for several months and many projects have rendered minimum bills to such members and recorded such bills in their regular sales accounts. In some cases these members never wire their homes and pay these electric bills, and as a result the project accumulates large delinquencies.

Members' bills of this type should not be treated the same as other electric sales. It is suggested that bills to members not served be recorded as follows:

Debit Account 125.5 Accounts Receivable Members Billed
not Connected
Credit Account 615 Miscellaneous Electric Revenue

(e) Payments in Advance - Unearned Income

Some consumers pay their energy bills in advance, in which case it is necessary to set up an unearned-income account. When the payment is received, it is recorded in the Cash Received Journal as a debit to Account 120.1 Cash - General and Operating, and a credit to Account 242.1 Unearned Income. Each month when the meter is read and the amount of energy bill is computed, the sale will be included in the entry recording the total sales; therefore, it will be necessary to transfer this credit from the unearned-income account to the accounts-receivable account. This will be accomplished by means of the following journal entry:

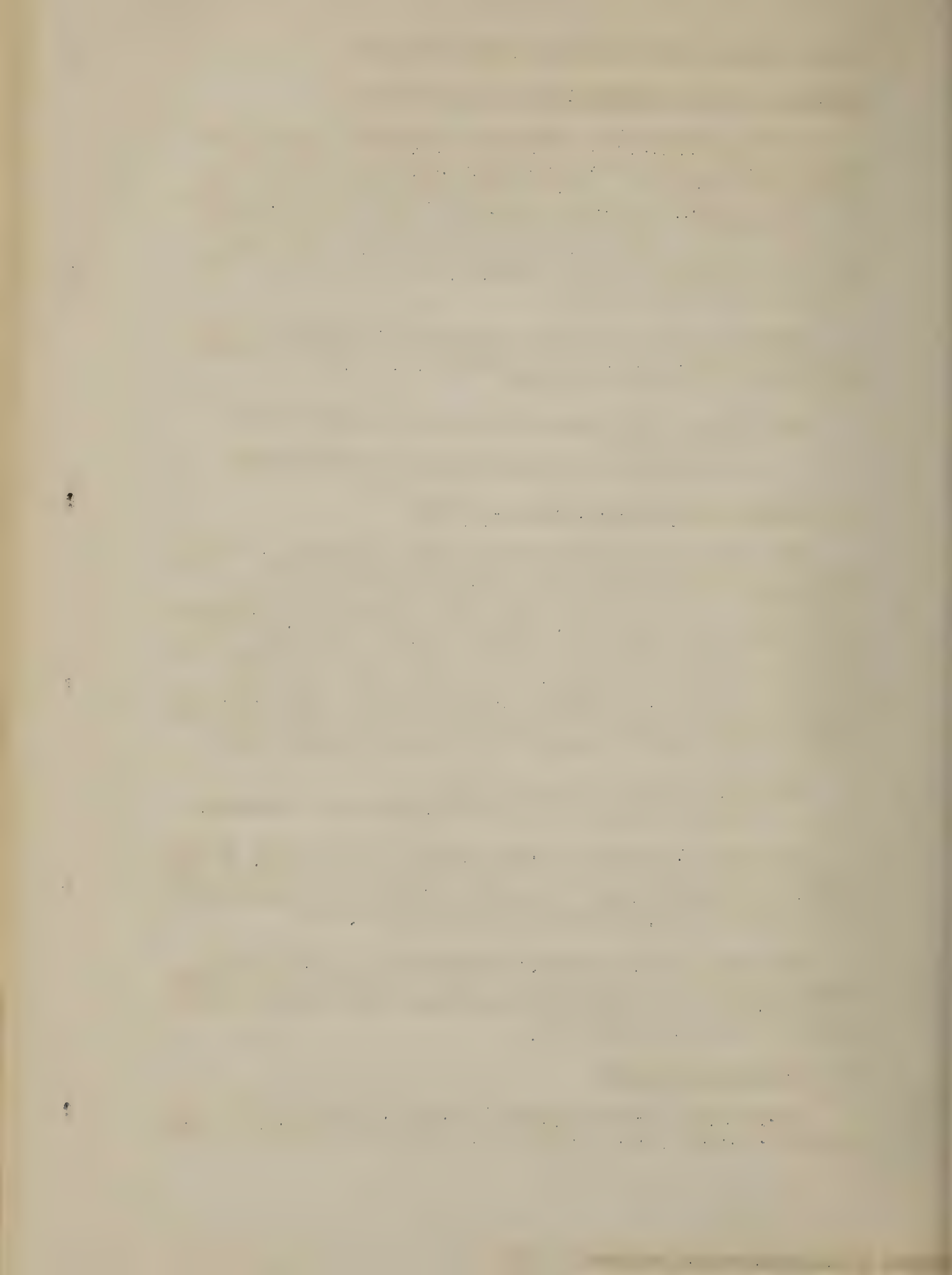
Debit Account 242.1 Unearned Income
Credit Account 125.1 Accounts Receivable - Consumers

There may be several of these accounts on the books, in which case it would be well to make a list each month and refer to such list in the journal entry. However, if there is a minimum number, the accounts could be indicated in the journal entry.

The total of the consumers' ledger cards and the General Ledger Account 125.1 Accounts Receivable - Consumers must always be in balance. It is imperative that these two records be reconciled at the end of each month.

(f) Delinquent Accounts

Occasionally, we are obliged to write off uncollectible consumers' accounts, due to inability to locate the members or other



reasons. In such cases, a list of the delinquents must be submitted to REA for approval in accordance with Operations Memorandum #48a.

After approval has been granted, the next step in the procedure is to apply against the account the amount of the consumer's deposit, if a deposit has been collected. This would require a transfer of the deposit from Account 121.1 Consumers' Deposit Fund to Account 120.1 Cash - General and Operating. The mechanics of bookkeeping involved in this transaction are as follows:

A check is drawn on the Consumers' Deposit Fund and the entry in the check register is:

Debit 227 Consumers' Deposits
Credit 121.1 Consumers' Deposits Fund

When the check is deposited in the General and Operating Cash Fund, the entry is:

Debit 120.1 Cash - General and Operating
Credit 125.1 Accounts Receivable - Consumers

The balance of the uncollectible account is then transferred to the Uncollectible Consumers' Accounts, if the transactions involved pertain to the current year's operations. The transfer is made by means of a journal entry and is recorded as follows:

Debit 783 Uncollectible Consumers' Accounts
Credit 125.1 Accounts Receivable - Consumers

However, if the transactions involved pertain to the operations of a previous year for which the credit of the sales has been transferred to the Surplus Account, then the journal entry would be:

Debit Account 271 Earned Surplus
Credit Account 125.1 Accounts Receivable - Consumers

(g) Forfeited Discounts and Penalties

Practically all projects impose penalties of 5 percent or 10 percent if electric bills are not paid on or before a specified date. Assuming that the 15th of the month is the last day on which a bill may be paid without the added penalty, on the 16th of the month the accounts in the consumers' ledger should be examined and the penalties posted. An adding-machine tape of the penalties should be made. If, for instance, the penalties amount to \$8.00, the following journal entry should be made:

Debit Account 125.1 Accounts Receivable -	
Consumers	\$8.00
Credit Account 612 Consumers' Forfeited	
Discounts and Penalties	\$8.00

To set up penalties for the month of _____ 19__.

This item of penalties becomes an operating revenue and is treated as such.

The Project Management may elect to handle discounts on a cash basis, in which event the journal entry will not be necessary; instead, the amount of the discount collected is credited directly to Account 612 Consumers' Forfeited Discounts and Penalties on the Cash Received Register.

B. Income from Service Connections - Miscellaneous Revenue

Some projects make a small charge for changing, reconnecting and disconnecting services. If a service charge of, say, \$2.00 is made for each consumer reconnected, the bookkeeping entry to record

the charge would be:

Debit 125.2 Accounts Receivable - Other	\$2.00
Credit 615 Miscellaneous Revenue	\$2.00

6. Operating Expense Accounts

At the close of each month, the bookkeeper should obtain invoices for all unpaid commitments incurred during the month. This is easy if Purchase Orders are used, as the Order will indicate material delivered and to be delivered.

The unpaid invoices should be recorded on the Accounts Payable Register - General and Operating Fund. All known unpaid expenses, with the exception of accrued items such as taxes, insurance, interest, etc., should be recorded in the Accounts Payable Register - General Fund (Form FI-177A-2). In this manner all expenses incurred in a specific month are charged to the operations of that month.

A. The Proration of Administrative Expense

The activities of the project superintendent, bookkeeper, and service man are varied. In most instances, the salaries of these employees cannot be charged to one account, but must be prorated to various expense accounts. For instance, the service man makes service connections, checks meters, builds line extensions, and takes care of the operation and maintenance of the line, and his salary is prorated among the various expense accounts affected and the construction account, according to the time devoted to each type of work. The same is true of the superintendent's salary and the bookkeeper's salary; however, as a usual thing these salaries are charged to

General Office Salaries unless the superintendent acts as service man and superintendent. If part of the lines are under construction and part in operation, it is often permissible to prorate the salaries of the superintendent and the bookkeeper between construction and General Office Salaries in order that they may bear their proportionate shares of the expense. The distribution of the salary may be made in the check register or preferably by the summary of daily time records at the end of each month.

B. Insurance

The Insurance Section of REA will furnish instructions as to the insurance required of the association. The method of accounting for the insurance costs after energization of the lines is as follows:

When insurance is purchased, the payment will be recorded on the Check Register - General and Operating Funds, charged to Account 132.1 Prepaid Insurance, and credited to Account 120.1 Cash - General and Operating.

Each month a journal entry is made prorating 1/12 of the premiums on insurance, covering office furniture and equipment, fidelity bonds, public liability and property damage, and materials and supplies in stock, debiting Account 798 - Insurance and crediting Account 132.1 Prepaid Insurance.

Sometimes public liability and property damage insurance is prorated on the basis of a rate shown in the policy. It will be necessary to read the policy to determine which method to apply.

Workmen's Compensation Insurance will be prorated on the basis

of the rate shown in the policy, applied to the current payroll. This charge will be a debit to Account 799 Injuries and Damages, and a credit to Account 132.1 Prepaid Insurance.

Automobile Insurance will be prorated on the basis of 1/12 of the premium, which is a debit to Account 903 Transportation Expenses - Clearing, and a credit to Account 132.1 Prepaid Insurance.

C. Interest and Tax Expense

Interest and taxes are accruing monthly. Although payment may not be made for several months, or perhaps for an entire year, the expense is nevertheless incurred, and each month's operations should bear its proportionate share of interest and tax expenses. Therefore, the appropriate tax accounts (Account 507) will be debited and the appropriate "Accrued Tax" accounts (Account 228) will be credited with the monthly taxes; likewise, interest accrued will be debited to Account 530 Interest on Long-term debt, and credited to the appropriate accrued-interest account (Account 229 Interest Accrued). When payment is made, the accrued account will be debited and Cash credited.

7. Changing the Location of a Line

If it is necessary to change the location of any portion of a line due to the widening of a highway or for any other similar purpose, the cost is a maintenance expense, and the entries to cover the expense involved will be:

Debit Account 768.1 Maintenance Distribution - Labor
Credit Account 120.1 Cash General and Operating Funds

The above entries are based on the cost of labor only. If small materials are used, such materials should be charged to Account 768.2 Maintenance Distribution - Supplies and Expenses, and credited to Account 131.1 Materials and Supplies. Therefore, the above entries would be charged as follows:

Debit Account 768.1 Maintenance Distribution - Labor
Debit Account 768.2 Maintenance Distribution - Supplies and
Expenses (Other Materials)
Credit Account 120.1 Cash - General and Operating
Credit Account 131.1 Materials and Supplies
(with materials used)

If changing the location of a line requires the use of additional units of construction, such as a pole and span, such units, including the labor involved in the installation, will be capitalized. The entries will be:

Debit the appropriate Capital Account (300 Accounts) or Construction
Work in Progress
Credit Account 120.1 Cash - General and Operating Funds
(with labor costs)
Credit Account 131.1 Materials and Supplies (with materials used)

If in changing the location of a line, all of the materials in the original construction are not used, it will be necessary to retire the unused portion. The property salvaged will be placed in stock and taken up in the Materials and Supplies Account at the salvage value.

The following entries will be necessary:

Debit (appropriate Reserve for Depreciation Account)
Credit Account 300 (Plant Account Affected)

To retire the unit of property.

Debit Account 131.1 Materials and Supplies
Credit (appropriate Reserve for Depreciation Account)

To record the salvage value of materials returned to stock.

When a unit of property is retired and not replaced, the book cost thereof shall be credited to the electric-plant account in which it is included, and in the event that the unit or item is a part of a depreciable plant, the depreciation reserve shall be charged with the book cost and the cost of removal, and credited with the salvage.

It is important that Work Orders be prepared for all property retired in order that the proper entry may be recorded on the books, and so that the electric plant shall not be over-capitalized.

P A R T I

CHAPTER 6

TAXES DURING THE PERIODS OF CONSTRUCTION
AND OPERATION

1. U. S. Social Security - Old-age Benefit Tax

This tax is based on 2 percent of salaries, 1 percent payable by the employee and 1 percent payable by the employer. The tax applies to any project employing one or more persons for any period of time, however short. The combined remuneration of any person employed on a salary or wage basis up to and including \$3,000 in any calendar year is taxable. An income in excess of \$3,000 is not taxable.

The employer is obligated to deduct 1 percent from the salaries and wages of all employees, regardless of age, and to remit same to the Federal Collector of Internal Revenue at regular intervals.

Application should be made on Form SS-4 for the employer's identification number, which number should appear on all tax returns. Each employee should apply to the local post office for his Social Security number.

Quarterly returns (Form SS-1A, which can be procured from the local post office) must be prepared and submitted, together with remittance to cover the amount of taxes indicated thereon, to the Federal Collector of Internal Revenue for the district in which the project is located, according to the following schedule:

Period Covered

Date of Submission of Report

January 1 to March 31

On or before April 30

April 1 to June 30

On or before July 31

July 1 to September 30

On or before October 31

October 1 to December 31

On or before January 31

It is the responsibility of the project to maintain payroll records which should show: (1) The name, address, and occupation of each employee and his Social Security number; (2) the total amount of wages, the date paid, and the period covered; (3) the amount of wages subject to tax; and (4) the amount of employee's tax withheld.

The employee's and employer's portions of the tax should be recorded on the books of the project each month as accrued taxes. The employee's portion is recorded in the Check Register and the employer's portion in the General Journal.

2. U. S. Social Security - Unemployment Tax

Every project employing eight or more individuals on a total of some 20 days during a calendar year, each day being in a different calendar week, is subject to this tax of 3 percent of total remuneration paid employees. Projects which are State instrumentalities are exempt, similar to the Old-age Benefit Tax. In the case of Old-age Benefit Taxes, earnings in excess of \$3,000 per annum are exempt, while under this class of Federal taxes there are no amount limitations.

This tax is generally payable annually, but may be paid in equal quarterly installments. The tax return (Form 940) is filed with the Federal Collector of Internal Revenue in accordance with the same schedule as outlined for Old-age Benefit Taxes.

Some States have a State unemployment-insurance tax law, under which the employer is obligated to pay a tax to the State Bureau. In such cases, the employer may claim credit against the Federal Unemployment Insurance Tax for the total amount of his tax payments under State unemployment-insurance laws, but this credit cannot exceed 90 percent of the Federal tax. Where no State unemployment tax law exists, the full 3 percent must be paid to the Federal Government.

Project records must show the total amount of remuneration actually paid and the number of individuals employed during each calendar month, as well as taxes paid to the State Unemployment Bureau. Regardless of definite information as to whether or not a project is subject to this tax, proper records must be kept to establish such claim.

Federal Unemployment Tax on salaries paid from construction funds is entered in the General Journal as follows:

Debit Account 103.2 Work in Progress - General Fund
Credit Account 228.2 Accrued Social Security
Unemployment Tax

3. State Unemployment Tax

This tax is similar to the Federal Unemployment Tax, except that it is governed by the State unemployment laws. Since these laws vary in the different States as to the number of employees and the number of weeks of employment, reference must be made to the State Act to ascertain the liability of the projects to this type of taxation. Projects in States which have enacted State unemployment laws are entitled to a credit against the tax imposed by the Federal Government for unemployment insurance. However, the total credit allowed the taxpayer for

such contributions shall not exceed 90 percent of the tax against which it is credited. In order to conform with this 90 percent credit on State unemployment tax payments, almost all States have a rate of taxation of 2.7% of the payroll.

Care should be taken to ascertain whether the employees must contribute a percentage of their wages under State unemployment acts. Consult the project attorney in these matters. Thus, under the Alabama State act, the employee must also contribute 1 percent of his wages. So, where an Alabama project and its employees are subject to Federal Old-age and Unemployment taxes as well as State unemployment tax, the total State and Federal Social Security Taxes payable will be 6 percent of the payroll. The law of each State must be consulted as to such employee contributions. In such cases, the accounting procedure would be similar to that applied to the Federal Old-age Benefit deductions.

If the project is liable for both Federal and State Unemployment Tax, the entry to record the employer's portion of the tax on salaries paid from Construction Funds, is made in the General Journal as follows:

Debit Account 103.2 Work in Progress - General Funds
Credit Account 228.2 Accrued U. S. Social Security-
Unemployment Tax
Credit Account 228.4 Accrued State Unemployment Tax

To record unemployment tax on payroll of _____,
the Federal portion being .3% and the State portion
being 2.7%.

6. Disbursement Procedure in Connection with Social Security Taxes

In order to eliminate possible confusion in the matter of recording, paying, requisitioning, and accounting for Social Security taxes, the new procedure will be as follows:

The employer's and employee's portion of Social Security taxes (both Old-age Benefit and Unemployment) will be paid from the General Funds for all salaries paid from both the Special Construction and General Funds. Reimbursement will be made to General Funds for the portion which applies to salaries paid from Special Construction Funds. The 1 percent, or employee's portion, is included as part of the salary requisitioned and will be advanced in the gross amount of the salary. The following is an example of a superintendent's salary paid from Special Construction Fund at the rate of \$200.00 per month:

ENTRY ON CHECK REGISTER - SPECIAL CONSTRUCTION FUND

:	:	:	:	:	:	:	General :
:	:	:	:	:	:	Social	Overhead:
:	:	:	:	:	:	Security	Supt. :
:	:	Ck. :	:	:	Dr. :	Cr. :	Salary :
:Date :	Description :	No. :	Amount :	228.3 :	228.3 :		103.1 :
:	:	:	:	:	:	:	:
:1940 :	:	:	:	:	:	:	:
:Feb.1:	John Doe	: 2	\$198.00	:	\$2.00	:	\$200.00 :
:	:	:	:	:	:	:	:
:	:	:	:	:	:	:	:

At the end of the month, the employer's portion of the U. S. Social Security tax is recorded in the General Journal as follows:

Debit Account 103.2 Work in Progress - General Fund	\$2.00
Credit Account 228.3 Accrued Taxes - U. S. Social Security	\$2.00

When the U. S. Social Security Tax is paid to the Collector of Internal Revenue, the check will be drawn on the General Fund and recorded as follows:

ENTRY ON CHECK REGISTER - GENERAL FUND

:	:	:	:	:	Soc. Security :	:
:	:	:	Ck. :	:	Dr. : Dr. :	Construction:
:	Date:	Description :	No. :	Amount :	228.3 : 228.3 :	103.2 :
:	:	:	:	:	:	:
:	Mar.:	Collector :	20 :	\$4.00 :	\$4.00 :	:
:	31 :	Internal :	:	:	:	:
:	:	Revenue :	:	:	:	:

The employee's portion of the U. S. Social Security tax, deducted from his salary when payment was made, is still in the Special Construction Bank Account and should be transferred to the General Fund. Transfer deductions of all employees by one check. The entry in the Special Construction Fund Check Register will be as follows:

:	:	:	:	:	Social Security:	Transfer :
:	:	:	Ck. :	:	Dr. : Dr. :	of Funds :
:	Date :	Description :	No. :	Amount:	228.3 : 228.3 :	120.6 :
:	:	:	:	:	:	:
:	Feb. :	:	:	:	:	:
:	28 :	General Fund :	25 :	\$2.00:	:	\$2.00 :
:	:	:	:	:	:	:
:	:	:	:	:	:	:

This check is deposited to the General Fund Bank Account and is recorded as follows:

Debit Account 120.1 Cash - General Fund	\$2.00
Credit Account 120.6 Transfer of Funds	\$2.00

At the end of a quarterly period, requisition in one lump sum the employer's portion of Old-age Benefit Taxes, 1 percent of all salaries paid from the Special Construction Fund, also the amount of Federal and State Unemployment taxes, 3 percent of salaries paid from the Special Construction Fund. When these funds have been received and deposited

to the Special Construction Fund Bank Account, a check will be drawn payable to the General Fund to reimburse this account for the employer's portion of the U. S. Social Security tax which has been paid from the General Fund.

ENTRY IN CHECK REGISTER - SPECIAL CONSTRUCTION FUND

:	:	:	:	:Social Security:		General	:
:	:	:	Ck.:	Amount	Dr.	Cr.	Overhead
:	Date	Description	No.:	120.2	228.3	228.3	Misc. 103.1
:	:	:	:	:	:	:	:
:	1940	General Fund	99	\$50.00	:	:	\$50.00
:	Dec.1	:	:	:	:	:	:
:	:	:	:	:	:	:	:

This check is deposited in the General Funds Bank Account and will be recorded as follows:

Debit Account 120.1 Cash General Fund	\$50.00
Credit Account 103.2 Work in Progress - General Fund	\$50.00

After energization of the lines, taxes are an operating expense and are charged to the specific tax account under the 507 series. Only such taxes as apply to salaries or wages directly connected with construction may be charged to the construction accounts. The credits in all cases are to the Accrued Tax accounts, 228 series.

5. Property Taxes

All States, except those in which projects are operating as instrumentalities of States or where the State laws exempt projects from taxation, impose a property tax. Usually, this tax does not apply to the distribution and transmission lines until such time as they are energized. The amount of the tax depends upon two factors: (1) The valuation placed upon the cooperative's property, and (2) the tax rate for

the particular year and/or locality.

The valuation of the project property for taxation is of prime importance. We believe that the earning capacity of each project is the prime factor in gauging its value for property taxation. Every effort should be made to have the taxing authorities adopt such method. Any attempt to value project property on original unit cost or similar bases EXCLUSIVELY IS WRONG, AND BORROWERS SHOULD NEVER AGREE TO SUCH A PLAN. (Consult the Tax Section of the Cooperatives' Operations Division concerning any taxes which seem unreasonable or any tax matters you do not understand.)

This tax can only be estimated until such time as the amount is determined by the property-tax authorities; however, an account shall be set up on the books designated as Account 228.1 Accrued Property Taxes, and each month a proportionate amount of the estimated property-tax expense credited to this account to establish the liability. Account 507.1 Property Taxes shall be concurrently charged. In this manner, each month of operations will bear its proportionate share of the tax expense. The local tax assessor and the project attorney will be able to assist in arriving at this estimate.

After establishing the estimated property tax, the following journal entry should be made each month, using 1/12th of the estimated amount for each entry.

Debit Account 507.1 Taxes - Property	\$30.00
Credit Account 228.1 Accrued Property Taxes	\$30.00

To set up 1/12th of the estimated property tax for the year ending June 30, 19__, estimated \$360.00 for the year.

As soon as the correct amount of the property tax is determined, an adjusting journal entry will be made. Assume, for example, that the estimated amount was \$360.00, but the tax authorities find that \$480.00 is the correct amount. If monthly entries have been made for six months on the basis of the estimate, the tax accounts will show that \$180.00 has been recorded. The increase involved by the findings of the tax authorities represents a total of \$120.00, or \$10.00 per month. Therefore, in order to bring the accounts into agreement with the adjusted, or correct, tax rate, the following entry is required:

Debit Account 507.1 Taxes - Property	\$60.00
Credit Account 228.1 Accrued Property Taxes	\$60.00

To set up an amount to adjust the property tax for the year 19__, previously recorded on the basis of an estimate of \$360.00 for the year, or \$30.00 per month; the correct amount is \$480.00.

Since taxes have a preferred claim, it is suggested that a cash reserve fund be set aside to meet this obligation. When these taxes are paid, the entry will be as follows:

Debit Account 228.1 Accrued Property Taxes	\$480.00
Credit Account 120.1 or Cash Reserve Fund	\$480.00

6. Sales, Receipts, State Gross Income, Use and Similar Taxes

Such taxes are usually imposed upon the retail sale of tangible personal property, or the use, consumption or storage of such property.

In States where a sales tax is imposed on the sale of energy, merchandise, etc., the project is responsible for the collection of such tax and for the remittance, together with a report covering the period indicated, to the State Tax Bureau.

The entry to record the sales tax on sales of energy is:

Debit Account 125.1 Accounts Receivable - Consumers
Credit Account 228.5 Accrued State Sales Tax - Consumers

When the tax is remitted to the State Tax Bureau, the entry is:

Debit Account 228.5 Accrued State Sales Tax - Consumers
Credit Account 120.1 Cash - General and Operating

In States where a Gross Income Tax is in effect, it is necessary to consult the particular State Tax Law to determine if the Project is liable for the tax and whether the gross sales or gross receipts are the basis for taxation.

The entry to record this tax is:

Debit Account 507.6 State Sales Tax - Other
Credit Account 228.6 Accrued State Sales Tax - Other

The entry to record the remittance is a debit to Account 228.6 Accrued State Sales Tax - Other and a credit to Account 120.1 Cash - General and Operating.

Use Tax is similar to Sales Tax and applies to materials purchased outside a State but used within the State. If these materials are used in the construction of electric lines, the entry to record the tax is:

Debit Account 103.1 Work in Progress - Special Construction
Credit Account 228.6 Accrued State Sales Tax - Other

If the materials are used in the operating or maintenance of the electric lines, the entry to record the tax is:

Debit Account 507.6 State Sales Tax - Other
Credit Account 228.6 Accrued State Sales Tax - Other

When the payment of the tax is made to the Tax Collector, the entries are a debit to the accrued tax accounts and a credit to the

particular Cash account.

If a project has any questions on taxation or any of its phases, it should communicate with the Tax Section of REA.

P A R T I

CHAPTER 7

DEPRECIATION, AMORTIZATION AND RESERVES

A. DEPRECIATION*

1. Production, Transmission and Distribution Plants
2. General Plant-Office Buildings, Office Furniture and Equipment, Transportation Equipment, and Tools and Work Equipment
3. Depreciation Register

B. AMORTIZATION

1. Formula for Calculating Amortization Payments, Interest and Principal

C. RESERVE

1. Reserve for Depreciation - Electric Plant
2. Reserve for Depreciation - General Plant
3. Amortization Reserve (Cash Reserve)
4. Transfer of Funds for Cash Reserve

A. DEPRECIATION

The depreciation expense applicable to Electric Plant in service shall be subdivided as follows:

- 503.1 Depreciation of Production Plant
- 503.2 Depreciation of Transmission Plant
- 503.3 Depreciation of Distribution Plant
- 503.4 Depreciation of General Plant

Depreciation means the loss in service value, not restored by current maintenance, incurred in connection with the consumption or prospective retirement of electric plant in the course of service, from causes which are known to be in current operation and against which the associations are not protected by insurance. Among the causes to be given consideration are the wear and tear, decays, action of the elements, inadequacy, obsolescence, changes in demand, and requirements of public authorities.

1. Transmission and Distribution Plants

Except where State or other existing regulations provide otherwise, the rate of depreciation applicable to Transmission and Distribution Plant shall be 3 percent per annum of the original cost of Accounts 330 and 363, inclusive, except Accounts 330, 340, 341, and 350, and of Accounts 391, 392, and 393. Depreciation of Transmission and Distribution Plants shall not be recorded each month, but at the end of each calendar year, by the following Journal entry:

Debit:	Account 503.2	Depreciation of Transmission Plant
	Account 503.3	Depreciation of Distribution Plant
Credit:	Account 250.2	Reserve for Depreciation of Transmission Plant
	Account 250.3	Reserve for Depreciation of Distribution Plant

Note: The mechanics for recording depreciation on Production Plant (Generating Plant) are the same as those illustrated above; however, the rate of depreciation will be 2 percent per annum.

2. General Plant

A. Office Buildings and Other Similar Property

Office buildings and similar property are depreciated over a period of approximately fifty years, or at a rate

of 2 percent per annum. On this basis, a building costing \$4,800.00 would depreciate at the rate of \$96.00 per year. Therefore, a journal entry should be made at the end of each calendar year, December 31, to record the depreciation.

Debit:	Account 503.4 Depreciation of	
	General Plant	\$96.00
Credit:	Account 250.4 Reserve for	
	Depreciation of	
	General Plant	\$96.00

Depreciation during the construction period shall be charged to Account 103.1 Work in Progress - Special Construction. Upon completion of construction, it is charged to Account 503.4.

B. Office Furniture and Equipment

Office furniture and equipment are depreciated over a period of five years. If the equipment in use costs \$600.00, a journal entry should be made at the end of the calendar year to record the depreciation.

Debit:	Account 503.4 Depreciation of	
	General Plant	\$120.00
Credit:	Account 250.4 Reserve for	
	Depreciation of	
	General Plant	\$120.00

Note: Articles of slight value or short service life acquired subsequent to the commencement of operation shall be charged to the appropriate operating expense accounts.

Depreciation during the construction period shall be charged to Account 103.1 Work in Progress - Special Construction.

C. Transportation Equipment

Transportation equipment is depreciated over a period of three years. If a truck costs \$720.00, the following journal entry should be made at the end of each month:

Debit Account 903 Transportation Expenses -	
Clearing	\$20.00
Credit Account 250.4 Reserve for Deprecia-	
tion of General Plant	\$20.00

Note: Assume that a truck costs \$720.00 and will be depreciated at the rate of $33\frac{1}{3}$ percent per year. This would mean that the monthly depreciation would amount to \$20.00. The truck will be used approximately eight months during the construction period. The full cost of the truck, \$720.00, would be charged to Account 373 Transportation Equipment. Monthly journal entries will be made during the period of construction to charge depreciation on truck to Account 103.1 Work in Progress - Special Construction and to credit Account 250.4 Reserve for Depreciation of General Plant.

At the end of construction, depreciation will be set up each month as a debit to Account 903 Transportation Expenses - Clearing and a credit to Account 250.4 Reserve for Depreciation of General Plant. This procedure will continue until the estimated life of the truck, three years, is reached, at which time the full amount will have been written off. It may be that the truck will still be used for one or more years without any book value showing on the records. Finally, the corporation will decide to purchase a new truck. Assume that the dealer will allow \$100.00 for the old truck. The entry to properly record this transaction would be to debit Account 250.4 Reserve for Depreciation of General Plant with \$100.00 and credit Account

401 Miscellaneous Credits to Surplus with \$100.00. Account 250.4 Reserve for Depreciation of General Plant will now show a credit balance of \$620.00. This reserve should be transferred to the credit of Account 373 Transportation Equipment by the following journal entry:

Debit:	Account 250.4 Reserve for Depreciation of General Plant	\$620.00
Credit:	Account 373 Transportation Equipment	\$620.00

This places the value of the truck at \$100.00 and closes the depreciation reserve account for this item.

If the new truck should cost \$640.00 less \$100.00 trade-in allowance, the amount of \$540.00 would be charged to Account 373 from the Check Register, or Accounts Payable Register.

D. Tools and Work Equipment

Tools and Work Equipment are depreciated over a period of two years. If the tools cost \$288.00, a journal entry should be made at the end of the calendar year to record depreciation.

Debit:	Account 503.4 Depreciation of General Plant	\$144.00
Credit:	Account 250.4 Reserve for Depreciation General Plant	\$144.00

Note: Articles of slight value, or short life, acquired subsequent to the commencement of operations shall be charged to the appropriate operating-expense accounts (Accounts 761.2 and 768.2, etc.).

Depreciation Register

In order that an analysis may be prepared showing the actual depreciation written off on any particular item, or

items, in the respective accounts, it is necessary to maintain a register on depreciative property.

This may be accomplished by establishing in a columnar ledger a list of the items included in Accounts 372, 373, and 377, in accordance with the following proposed outline:

DEPRECIATION REGISTER-OFFICE FURNITURE AND EQUIPMENT

			<u>Yearly Depreciation</u>
	<u>Purchase</u>	<u>Purchase</u>	<u>December</u>
	<u>Date</u>	<u>Price</u>	
1 Oak Desk 52 x 60	1/1/39	\$ 36.00	7.20
6 Folding Chairs	1/2/39	12.00	2.40
1 Allen-Wales Adding Mach.	2/2/39	120.00	22.00

DEPRECIATION REGISTER-TOOLS AND WORK EQUIPMENT

Tools Purchased	1/3/39	288.00	144.00
Tools Purchased	2/1/39	144.00	66.00
Tools Purchased	3/4/39	72.00	30.00

At the beginning of the new year, the total depreciation amount should be carried forward, so that the register reflects at all times the original cost and the total depreciation written off. Notation should be made of the disposition of equipment, whether by sale, trade-in, or destruction. Any salvage value or



recovery by insurance should also be noted in order that the register supports at all times the book value recorded in the general ledger.

B. AMORTIZATION

Amortization means the gradual liquidation or extinguishment of a debt by prorating such amount over a fixed period of time.

1. Amortization (Formula for Calculating Amortization Payments)

(These data are to furnish information. Actually, REA will compute amounts due and advise the projects.)

Each Mortgage specifies a rate of monthly amortization. The method of determining the amount of monthly payments on principal is as follows:

Amount of Loan x Amortization Rate - Interest

If the amortization payment is based on a loan of \$200,000.00 and the rate of \$6.068 per \$1,000.00 per month, the amount of the monthly payment is determined thus:

$$\begin{array}{rcl} \frac{\$200,000.00 \times \$6.068}{\$1,000.00} & = & \$1,213.60 \\ \text{Less Interest} & & \underline{500.00} \\ \text{Amortization Payment} & \$ & 713.60 \end{array}$$

Note: The interest is a part of the rate -
\$6.068 per thousand.

When amortization payments begin, the formula for determining the interest charge is as follows:

Unpaid Principal Amount of Note x Interest Rate ÷ Number of Interest Periods in the Year.

Example: The above calculation is based on a 3% Note payable monthly; therefore, the following amounts would be substituted

in the formula to determine the interest charge.

$$\$200,000.00 \times \frac{.03}{12} = \$500.00$$

C. RESERVE

There are innumerable kinds of "reserves;" partly because the word is loosely applied and partly because reserves in a more strict sense may be provided for many purposes. Allowances made for depreciation of fixed assets are generally called "reserves" but are directly related to a proper statement of the specific asset accounts.

1. Reserve for Depreciation of Electric Plant

This account does not represent a fund set aside for replacement of Electric Plant when it becomes worn out; nor are specific investments ordinarily made of amounts thus provided out of earnings. We suggest that the funds which accumulate in the General and Operating Cash Account over and above the normal current use be used as an advance principal payment to REA in accordance with Supplement #1 to Operations Memorandum #51.

2. Amortization Reserve

The Note and Mortgage executed by the Borrower for the REA loan specifies the amount of monthly, semiannual or annual principal and interest payments and the dates upon which they will become due. In practically all instances, these payments are not due for some time after the project begins operation. In order that these payments may be made on the maturity date, it is permissible that provision be made therefor by the establishment of a cash reserve in the amount of 1.4 percent of the loan per year (to be

set up monthly). This is in addition to the current monthly Interest and Principal Payments, and should not be established until the net income is in excess of current monthly interest and principal payments. In order to accomplish this it will be necessary to make a monthly appropriation of net earnings sufficient, if possible, to build a special fund adequate to meet amortization and interest payments as they mature. The illustrative entries which follow will suffice to show the mechanics of bookkeeping involved in setting up the various accounts affected. Assuming that the 1.4-percent reserve amounts to \$100.00 monthly, the journal entries would be as follows:

Debit Account 540.1 Long-term Debt	
Appropriations	\$100.00
Credit Account 258.1 Amortization Reserve -	
Long-term Debt	\$100.00

The next transaction requires a transfer of funds from the General and Operating Funds to Special Deposits. On the check Register - General and Operating Funds, the following entry will be made:

Debit Account 120.6 Cash - Transfer of Funds	\$100.00
Credit Account 120.1 Cash - General and	
Operating	\$100.00

On the record of Cash Received, Special Deposits, the entry will be:

Debit Account 114.1 Long-term Debt	
Reserve Fund	\$100.00
Credit Account 120.6 Cash - Transfer	
of Funds	\$100.00

The following entries show in sequence the various steps in connection with payment of the Long-term Debt from Reserve Funds:

Entry in Check Register, when payment is made:

Debit Account 213.1 Special Construction	
Obligation	\$100.00
Credit Account 114.1 Long-term Debt	
Reserve Fund	\$100.00

Note: In this example, provision has been made for one month only. It will be understood, of course, that many months may be involved, but the principle illustrated will be followed throughout.

3. Transfer of Funds for Cash Reserves

There are two types of fund transfers - transfers affecting construction and transfers for the purpose of establishing cash reserves, or to transfer funds from one bank account to another, etc. For this latter purpose a clearing account has been established, known as Account 120.6 Cash - Transfer of Funds. When a transfer of funds is effected in the Check Register, Account 120.6 Cash - Transfer of Funds is debited and the specific Cash account is credited. When the transaction is recorded in the Record of Cash Received, the particular Cash Account is debited and Account 120.6 Cash - Transfer of Funds is credited. This latter is a memorandum account to be used for the purposes indicated, and there should not at any time be any balance shown in this account.

CLOSING BOOKS AND BALANCE SHEET

A. Taking a Trial Balance

A Trial Balance is taken at the end of each month by listing the debit and credit balances of all accounts after all transactions, including accruals for property taxes, if any, Federal and State Social Security, Old Age Benefit and Unemployment, industrial insurance (PL and PD and Workmen's Compensation), depreciation on distribution plant and/or transmission plant and/or generating plant, depreciation on general plant, interest (deferred - not due), unpaid purchase invoices, provision for uncollectible accounts, adjustments for PL and PD and straightline insurance, materials used, unearned income, energy sales and clearing of transportation expenses (Account 903) applicable to the current monthly accounting period, have been posted to the General Ledger.

Before a Trial Balance is prepared, each account should be totaled on the debit and credit sides of the General Ledger Accounts. The totals should be brought down in small pencil figures immediately under the last entry. The difference between these two totals, debit and credit, will be the balance in that particular account and will be shown as a debit or credit balance in the balance column directly opposite the last posting for the month.

A Comparative Trial Balance of the General Ledger should be typed (or legibly written) at the end of each month showing account numbers, titles of accounts and their debit or credit balances. Of course, the total debit balances should equal the total credit balances. Record the balances at the end of the previous month, the total debit and total credit transactions recorded during the month and the resulting debit or credit balances of each account at the end of the reporting month. A copy of the Comparative Trial Balance should be filed for reference and a copy furnished to REA with the monthly operating report.

The income and expense accounts in the General Ledger should be closed to surplus at the end of each calendar year. However, before these accounts are closed, any necessary adjustments should be made in them. Also, the miscellaneous credits to Surplus (Account 401) and miscellaneous debits to Surplus (Account 414) should

be cleared to Earned Surplus.

B. Closing the Books

It is not deemed necessary to show here in detail the lengthy procedure involved in closing each income and expense account prescribed in the Uniform System of Accounts. Bookkeepers who have had business-college training in double-entry bookkeeping understand the mechanics of preparing a Profit and Loss Statement and closing the books. Briefly stated:

1. All income accounts (sales, etc.) show a credit balance.

To close these accounts, a journal entry will be made to:

Debit each Income Account
Credit Profit and Loss

2. All expense accounts show a debit balance. To close these accounts, a journal entry will be made to:

Debit Profit and Loss
Credit each Expense Account

It will, of course, be understood that from the journal entry postings will be made to the accounts listed. After all postings are made, all income and expense accounts will be balanced (equal debits and credits) and ruled off. Earned surplus should be ruled off and the net profit or net loss brought down. There will then remain open in the General Ledger only Assets and Liability accounts, including Earned Surplus, which constitute the Balance Sheet accounts.

C. Balance Sheet

The Balance Sheet includes all Assets, Liabilities, and Net Worth or Surplus. This can be arrived at by deleting from your Trial Balance all income and expense accounts, as explained under "Closing the Books." The difference between income and expense represents the earnings or loss for the period and will be reflected in Account 271 Earned Surplus after the books have been closed.

D. Operation Results and Statistics

For the successful management of a business enterprise, it is necessary to maintain some systematic comparison of operations and statistics. The proposed outline has been prepared for the Borrower's use in setting up the necessary data to be maintained for a study of the progress of their respective project.

It is suggested that a bound ledger of columnar sheets be obtained, having eight or ten columns and approximately 45 lines. This would make a very convenient and permanent record for recording the above-mentioned data. The account name and number would be entered on the left-hand side of the sheet and the columns headed for the respective

months, thus giving a monthly comparison. Some sheets could be cut back two columns to form fly sheets, thereby establishing monthly comparative statements for a period of two to three years.

It will be noted from the samples given that most of the data can be obtained from the General Ledger Accounts. By keeping these data on a comparative basis, it enables the management to see at a glance the trend of operations, and whether the proper progress is being made.

The bookkeepers should study these comparisons, and whenever income shows a material decrease or expenses show a material increase over the previous months, an analysis should be made to ascertain the reason for such change. For the benefit of the project superintendent and Board of Directors, it may be found advisable to make a memorandum of the cause of any increases or decreases as mentioned above.

The management is always desirous to know whether or not the results from operations are sufficient to meet their outstanding obligations, and this would be reflected in the Gain from Operations, as shown on the sample form.

The bookkeeper can obtain from the mortgage note or notes the monthly amount of interest and principal which the project will be obliged to meet on the long-term debt. The combined amount which was due and payable in each month should be used in compiling

this report. Charges made to Account 530 during the month should be deducted from this figure to ascertain the increase in revenue necessary to meet the project's obligations. When the Gain equals or exceeds the Balance of Monthly Obligation, the project will be progressing in the right direction.

SUGGESTED COMPARATIVE FORM OF OPERATING
RESULTS AND STATISTICS

	January	February	March
Members Subscribed			
Members Connected			
Miles Energized			
Operating Revenue per Mile			
Density per Mile			
Average Bill per Member			
Average kwh per Member			
No. of Minimum Bills			
Kwh Purchased			
Kwh Sold			
Kwh Unaccounted for			
Average Cost of kwh Purchased			
Transportation Cost			
Miles - Truck No. 1			
Miles - Truck No. 2			
Cost per Mile Truck No. 1			
Cost per Mile Truck No. 2			
Materials and Supplies Beginning of Month			
Purchases during Month			
Used during Month			
Materials and Supplies End of Month			
No. of Member Services Constructed			
Average Cost per Service Constructed			
No. Services run, Not Connected			
Total Payroll			
Number of Employees			
Total All Income			
Total All Expenses			
Gain or Loss			
Total Interest and Principal Payments			
Less Charges to Account 530			
Balance of Monthly Obligations			

P A R T I

CHAPTER 9

SPECIAL ACCOUNTING PROBLEMS

The bookkeeping handbook as a whole deals with the accounting problems of the average project. This chapter is devoted to special problems which may not affect all projects.

A. EHFA Collections

The Electric Home and Farm Authority makes loans to consumers for the purpose of purchasing electric appliances. The project acts as a collecting agency for the EHFA, receiving $12\frac{1}{2}\%$ per month for each contract and \$1.00 for each new contract secured by the project.

It is suggested that each contract be recorded in a subsidiary ledger or on a card record system. If a subsidiary ledger is used, record each contract on a separate sheet and show the total amount of contract, date, and amount of monthly payment. If a card system is used, record the same information on separate cards for each contract. When collections are made, issue a receipt to the consumer, retaining a copy of same. At the end of the day, post from your receipts to your subsidiary ledger or card, showing date and amount of collection made.

Collections made from consumers for EHFA are deposited to the General Fund cash accounts. The entry will be as follows:

Debit Account 120.1 Cash - General and Operating Funds
Credit Account 222.4 Accounts Payable - EHFA

PROPOSED SUBSIDIARY LEDGER SHEET FOR EHFA COLLECTIONS

NAME OF MEMBER _____	ADDRESS _____	
AMOUNT OF CONTRACT \$100.00	DATE OF CONTRACT 12/10/39	MONTHLY PAYMENT \$5.00

<u>Payment Due</u> 1940	<u>Amount of</u> <u>Payment</u>	<u>Date Paid</u> 1940	<u>Amount Paid</u>	<u>Balance Due</u>
January 10	\$5.00	January 9	\$5.00	\$95.00
February 10	\$5.00			
March 10	\$5.00			

When disbursements are made to EHFA, the entry will be as follows:

Debit Account 222.4 Accounts Payable - EHFA
Credit Account 120.1 Cash - General and Operating Funds

EHFA will pay the project each month for the services rendered in collecting their bills. This commission when received will be deposited to the General Fund account and will be recorded as follows:

Debit Account 120.1 Cash - General and Operating Funds
Credit Account 526 Non-operating Revenue

B. Consignments

Some materials are shipped to the project, such as lamp globes, fuses, etc. These goods are often invoiced to the cooperative at the date of consignment; however, the invoice should not be entered as an Accounts Payable, but a memorandum record should be made, showing the number of units, price, etc., of such order. As sales are made of this merchandise, the entry would be:

Debit Account 120.1 Cash - General and Operating Fund, or if a
charge sale,
Debit Account 125.2 Accounts Receivable - Other
Credit Account 526 Non-operating Revenue

At the end of the month, an inventory should be taken of the consigned merchandise on hand to determine cost of merchandise sold. If remittance is not made immediately, the cost of the merchandise sold should be set up as an Accounts Payable.

The entry for recording is:

Debit Account 527 Non-operating - Expense
Credit Account 120.1 Cash - General Fund if remittance is
made immediately, or
Credit Account 222.2 Accounts Payable - General and Operating

C. Sale of Electric Properties

In order to obtain a source of wholesale energy, it has been necessary to include in some Loan Contracts a provision to permit the construction of lines and substations which are sold or rented to other agencies. Examples follow:

(1) The A. B. Association borrows funds from REA to construct 10 miles of transmission line to the source of power. This line is to become the property of the C. D. Association at the termination of the contract. They, in turn, reimburse the A. B. Association for the constructed lines by allowing a credit of an agreed amount on the monthly wholesale energy bill. Assuming that the cost of construction was \$15,000.00 and that a credit of \$100.00 is allowed on each monthly bill, the entries for the A. B. Association would be as follows:

Debit Account 125.2A - Accounts Receivable Other (C.D. Co.)	
Credit	- Appropriate Electric Plant 300 Accounts

To record sale of electric properties.

Each month the amount of \$100.00 allowed as credit on the wholesale electric bill should be transferred to a special fund.

A separate check for \$100.00 would be written on the General and Operating Fund and charged to Account 738 Purchased Power. When the check is deposited in the special fund, the entry would be as follows:

Debit Account 121	Special Deposits - C. D. Power Co.
Credit Account 125.2A Accounts Receivable - Other (C.D. Co.)	

It is very important that this cash be transferred from the General Fund Cash and deposited to the Special Deposit Account each month. The Special Deposit funds should be used only for repayment, interest, and amortization of the Long-term Debt.

(2) The R. S. Association constructs heavy transmission lines for the purpose of assisting the XYZ Association in obtaining a source of power. The XYZ Association agrees to pay the R. S. Association \$100.00 per month toward the amortization of the additional investment of \$25.00 per month for the rental of said line.

Each month a bill is received by the XYZ Association from the R. S. Association as follows:

Electric Energy	\$200.00
Amortization Charges	100.00
Maintenance Charges	<u>25.00</u>
Total of Bill	\$325.00

The entry to record this bill on the XYZ records would be as follows:

Debit Account 738 Purchased Power	\$300.00
Debit Account 753 Rents (Rental of Trans.)	25.00
Credit Account 222.2 Accounts Payable - General and Operating Fund	\$325.00

To record monthly wholesale energy and rental bill.

The entry necessary to record this transaction on the books of R. S. Association will be as follows:

Debit Account 125.3	Accounts Receivable	
	Other - XYZ	\$325.00
Credit Account 605	Sales to Other-Utilities	\$200.00
Credit Account 610	Rent from Electric Property	25.00
Credit Account 265	Contributions in Aid	
	of Construction	100.00

The R. S. Association should transfer from their Cash General Funds Account the amount of \$100.00 to Account 121 - Cash - Special Deposit, for the purpose of making payments on interest and amortization.

D. Power Reserve Cooperative

A Power Reserve Cooperative is a cooperative formed to provide emergency power for member cooperatives. Member cooperatives usually pay the Power Reserve Cooperative a membership fee. This fee is generally paid in advance each year. It is suggested that this membership fee be recorded as follows:

Debit Account 132.4	Other Prepayments
Credit Account 120.1	Cash General and Operating Fund

Each month write off 1/12 of this fee and make the following entry:

Debit Account 738.1	Power Reserve Expense
Credit Account 132.4	Other Prepayments

If the member cooperative finds it necessary to use the Mobile Diesel Generating Unit to supply power for their system, make the following entry:

Debit Account 738	Electric Power
Credit Account 120.1	Cash General and Operating Fund

Note: The above charges include fuel oil, transportation, labor, and any other charges in connection with moving and operating the mobile unit while it is being used by the project.

E. Wiring Inspector's Fees

Frequently projects are requested by their members to accept house-wiring inspection fees in the absence of the inspector. When the inspector is absent from the project several weeks, these fees accumulate to rather large amounts if not deposited. Such collections as are made by the project for the independent wiring inspector (inspector not on the project pay roll) should be deposited to the General Fund Bank Account and recorded as follows:

Debit Account 120.1 Cash-General and Operating Fund

Credit Account 222.6 Accounts Payable Wiring Inspector

When these funds are disbursed to the inspector, make the following entry:

Debit Account 222.6 Accounts Payable Wiring Inspector

Credit Account 120.1 Cash-General and Operating Fund

ACCOUNTING PROCEDURE
FOR
SELF-HELP PROJECTS

The spirit of cooperation among our borrowers is increasing more and more each day as evidenced by the number of projects being constructed under the self-help program.

A specific procedure covering all projects of this class is not feasible at present, as there are various ways in which the members of a cooperative can contribute to the development of the project and simultaneously secure more economical and better living conditions for themselves.

The prime factor on self-help projects is the labor performed by the members: a member agrees to give so many hours of labor to clearing land, digging holes, installing anchors and other types of work for which he does not receive remuneration immediately, but allows the wages to accumulate in a trust fund to be applied against future obligations, such as house-wiring contracts, purchase of appliances, etc.

The construction of lines may be done by Force Account or by Contract. If lines are constructed by Force Account, the project may issue individual checks for the labor performed which the member will endorse to the cooperative. These checks are deposited in Members Participation Trust Fund.

Under the latter procedure it would be necessary for the member to sign an agreement authorizing the Contractor to make such payment to the cooperative. It would be necessary under either procedure to furnish Daily Time Slips (Exhibit B) specifying the number of hours worked which would be signed by the member and the foreman of the crew. This information would be posted to the Members Participation Record Card (Exhibit C) and a duplicate time slip filed by the project for reference. It is important that these funds be deposited in a separate bank account, known as Account 121.3 Members Participation Trust Fund, and remain there until such time as the member authorizes the project to apply them toward the payment of House Wiring or Appliance Contracts.

The mechanics of bookkeeping involved are as follows:

If construction is done by Force Account, a check for the labor would be drawn and entry will be

DEBIT Account 103.3 Work in Progress - Force Account Construction
and Member Service Extensions

CREDIT Account 120.2 Special Construction Funds

When the check is deposited in the Trust Fund the entry will be

DEBIT Account 121.3 Members Participation Trust Fund (Misc. Special
Deposits)

CREDIT Account 222.3 Accounts Payable - Members Participation

When the time arrives for the member's house to be wired, the Wiring Contractor is handed the Members Wiring Contract, which has been signed previously by the member, and a statement of the member's credit (Exhibit D) which has been prepared from the Members Participation Record Card in the office.

Upon completion of the house wiring and inspection thereof the Wiring Contractor should return to the cooperative the Members Statement (Exhibit D), with charges for the work performed listed in the debit column. This statement should be signed by the member authorizing the cooperative to make down payment for his wiring, or the amount designated on the statement, from the Members Participation Fund. A check is then drawn on the Members Participation Trust Fund and the entry is

DEBIT Account 222.3 Accounts Payable - Members Participation

CREDIT Account 121.3 Members Participation Trust Fund

The same procedure is followed if the accumulated funds are applied toward the payment of electric appliances.

If construction work is done by Force Account the importance of detailed daily records of labor must be emphasized, as it will be necessary to know the type of work performed by the members and the hours devoted to each task.

The construction costs on self-help projects paid from Special Construction Funds are distributed in accordance with the procedure prescribed under Construction Accounting.

EXHIBIT "A"

MEMBER'S AGREEMENT WITH COOPERATIVE

To _____

Date _____ 1941

I hereby agree that any money due or to become due me from the _____ Cooperative for labor performed in connection with construction of the cooperative electric distribution system shall be used as partial payment on the contract I have signed for wiring my premises or for my purchase of electrical appliances which I have or will have ordered through the Cooperative.

Witness _____ Member _____

In the event I am employed by a member of the Cooperative to work in his place, I agree that any money earned for labor performed by me will be applied to credit of the member I represent and no money will be due me from the Cooperative.

Member's Employee _____

EXHIBIT "B"

D A I L Y T I M E S L I P		
		Cooperative
Address	Date	194
Hours	Kind of Work	No. Units Completed
Total Hours		Employee
Social Security No.		
The above is Correct Time		Foreman

EXHIBIT "C" (1)

PAYMENTS MADE TO CONTRACTORS

By _____ Cooperative

FROM MEMBERS PARTICIPATION FUND

[illegible]

MEMBERS RECORD

- 94g -

EXHIBIT "D"

MEMBERS STATEMENT

Pole No. _____ Date _____

Name _____ Address _____

Member No. _____

	Debit	Credit
1. Total wiring and fixtures, per contract	_____	_____
2. Electric Appliances	_____	_____
3. Membership in Cooperative	_____	_____
Total Amount Due	_____	_____
Credit for labor performed (Hours _____)		_____
Other Credit		_____
REA Wiring Loan		_____
Total Credit		=====
Total due and payable before energizing	_____	
Balance due member for appliance purchase		_____

I certify that the above statement is correct, and hereby authorize the _____ Cooperative to disburse any monies due me for work performed as shown above.

It is understood that any cash payment required as shown on the above statement will be due and payable at the office of the _____ Cooperative in _____ within five days after inspection and approval of the wiring installation, and that my premises will not be energized until the above payment is made in full.

Signed _____

Witness: _____

PART I

CHAPTER 10

ACCOUNTING PROCEDURE FOR WIRING AND PLUMBING LOANS

Instructions for obtaining Wiring and Plumbing loans are contained in Booklet FI-137R.

The ABC Association, having completed the preliminary steps of acquiring a Wiring and Plumbing Loan, is confronted with the accounting procedure which is outlined as follows:

John Doe wishes to finance the wiring of his home and places an application with the ABC Association. The Association estimates the cost based upon the number of outlets, etc. The Association's Finance Committee passes upon the applicant's credit, and a contract is then placed with the lowest desirable bidder - the XYZ Company. For example: Contract is let for \$100.00. John Doe pays \$20.00 in cash and executes a note for \$80.00.

- (1) The cash payment is recorded in Cash Received - Wiring and Plumbing

Debit Account 120.5 Cash - Special Installation	\$20.00
Credit Account 222.5 Accounts Payable - Wiring and Plumbing	\$20.00

Note: The 20-percent cash payment may be made direct to the contractor.

The member's note is recorded in the General Journal as follows:

Debit Account 124.1 Notes Receivable - Wiring and Plumbing	\$80.00
Credit Account 222.5 Accounts Payable - Wiring and Plumbing	\$80.00

To record Wiring and Plumbing note of John Doe.

- (2) The note is pledged with REA who, in turn, advances the funds.
This is recorded by a journal entry.

Debit Account 124.2 Notes Receivable Pledged	
Wiring and Plumbing	\$80.00
Credit Account 124.1 Notes Receivable -	
Wiring and Plumbing	\$80.00

- (3) Funds advanced by REA are recorded in Cash Received Register.

Debit Account 120.5 Cash - Special Installation	\$80.00
Credit Account 213.2 Wiring and Plumbing Obligation	\$80.00

- (4) The Contractor renders an itemized invoice in duplicate. Upon approval, a check is drawn for the amount, which is entered in the Check Register.

Debit Account 222.5 Accounts Payable - XYZ Co.	\$100.00
Credit Account 120.5 Cash - Special Installation	\$100.00

- (5) John Doe then makes a monthly payment of principal and interest.

This is recorded in the Cash Received - Wiring and Plumbing.

Debit Account 121.2 Installation - Loan Payment Fund -	
Wiring and Plumbing	\$10.10
Credit Account 124.2 Notes Receivable Pledged	\$10.00
Credit Account 526 Non-operating Revenue	.10

- (6) To set up the amount of interest due REA it is necessary to make a journal entry.

Debit Account 527 Non-operating Expense	.03
Credit Account 229.2 Interest Accrued - Wiring and Plumbing	.03

- (7) A payment is made to REA on Long-term Debt - Wiring and Plumbing:

A check is drawn and entered in the Check Register.

Debit Account 213.2 Wiring and Plumbing Obligation	\$10.00
Debit Account 229.2 Interest Accrued - Wiring and Plumbing	.03
Credit Account 121.2 Installation Loan Payment Fund - Wiring and Plumbing	\$10.03

Note: If for some reason John Doe failed to make the Monthly Payment, Interest Receivable would be set up at the end of the accounting period by a journal entry.

Debit Account 128 Interest Receivable
 Credit Account 526 Non-operating Revenue

The above transactions illustrate the accounting for Wiring and Plumbing Loans.

LEDGER ACCOUNTS

120.5 - CASH - SPECIAL INSTALLATION - WIRING AND PLUMBING

Debit		Credit	
(1) Cash - John Doe	\$20.00	(4) XYZ Company	\$100.00
(3) Cash - REA	80.00		

121.2 INSTALLATION LOAN PAYMENT FUND - WIRING AND PLUMBING

Debit		Credit	
(5) Cash - John Doe	10.10	(7) Repayment - REA	10.03

124.1 - NOTES RECEIVABLE - WIRING AND PLUMBING

Debit		Credit	
(1) Note - John Doe	80.00	(2) John Doe's Note pledged with REA	80.00

124.2 - NOTES RECEIVABLE PLEDGED - WIRING AND PLUMBING

Debit		Credit	
(2) John Doe	80.00	(5) John Doe - 1st Payment	10.00

128 - INTEREST RECEIVABLE

Debit		Credit	

213.2-WIRING AND PLUMBING OBLIGATION

Debit		Credit	
(7) By check #30	10.00	(3) 1st advance date ()	80.00

222.5 - ACCOUNTS PAYABLE - WIRING AND PLUMBING

Debit		Credit	
(4) By check #1	100.00	(1) Cash John Doe	20.00
		(1) XYZ Co. (Contract of John Doe)	80.00

229.2 - INTEREST ACCRUED - WIRING AND PLUMBING

Debit		Credit	
(7) By check #30	.03	(6) Interest on notes for ()	.03

526-NON-OPERATING REVENUE

Debit		Credit	
		(5) Interest on note of John Doe	.10

527-NON-OPERATING EXPENSE

Debit		Credit	
(6) Interest on Notes Pledged	.03		

UNIFORM SYSTEM OF ACCOUNTS PRESCRIBED

FOR HOUSE WIRING AND PLUMBING

LOANS

120.5 CASH - SPECIAL INSTALLATION ACCOUNT

Debit this account with:

All sums advanced by the Government for Wiring and Plumbing; also all cash payments made by the member for materials and/or installations. (Contra entries to accounts 213.2 Wiring and Plumbing Obligation and 222.5 Accounts Payable - Wiring and Plumbing.)

Credit this account with:

All payments to the Contractor for materials and labor. (Contra entry to account 222.5 Accounts Payable - Wiring and Plumbing.)

Note: This account shall not be used for collections received from members as payments on their Notes. Account 121.2 Installation Loan Payment Fund - Wiring and Plumbing is to be used for this purpose. If for any reason the Bank makes any Service Charge or Float Charges on this account, same shall be reimbursed from General and Operating Funds and charged to the proper expense account.

121.2 INSTALLATION LOAN PAYMENT FUND - WIRING AND PLUMBING

Debit this account with:

All collections received as payment on members' installation notes and for interest received thereon. (Contra Account - 124.2 Notes Receivable Pledged and Account 128 Interest Receivable or Account 526 Non-operating Revenue.)

Credit this account with:

All payments to the Government (or REA) as payments on Installation Loan for Principal and Interest. (Contra Account - 213.2 Wiring and Plumbing Obligation and Account 229.2 Interest accrued on Wiring and Plumbing Obligations).

124.1 NOTES RECEIVABLE - WIRING AND PLUMBING

Debit this account with:

All notes received from members in connection with Wiring and Plumbing installations. (Contra Account - 222.5 Accounts Payable - Wiring and Plumbing.)

Credit this account with:

The amount of Notes pledged to REA, or, in the event the Note has not been pledged, with payment received thereon. (Contra Account - 124.2 Notes Receivable pledged.)

Note: A subsidiary ledger will be set up to include account with each individual member's name and address, together with the date of the Note, the date on which each payment on principal is to be made and the rate of interest applied.

When a Note has been pledged, the individual ledger sheet should be marked indicating the date pledged and on what requisition the Note was submitted to REA.

124.2 - NOTES RECEIVABLE PLEDGED

Debit this account with:

The amount of Notes pledged to REA as security for Wiring and Plumbing Loan. (Contra Account - 124.1 Notes Receivable.)

Credit this account with:

All payments received as payment on the principal amount of consumers' Notes. (Contra Account - 121.2 Installation Loan Payment Funds - Wiring and Plumbing.)

222.5 - ACCOUNTS PAYABLE - WIRING AND PLUMBING

Debit this account with:

All payments to contractor or for material and labor. (Contra Account - Account 124.1 Notes Receivable and Account 120.5 Cash - Special Installation - Wiring and Plumbing.)

Credit this account with:

All members' notes covering audited invoices or accounts and payrolls, etc., due on Wiring and Plumbing Installations. (Contra Account - 124.1 Notes Receivable - Wiring and Plumbing.)

213.2 WIRING AND PLUMBING OBLIGATION REA

Debit this account with:

All payments made to REA on Wiring and Plumbing Loans. (Contra Account - 121.2 Installation Loan Payment Fund - Wiring and Plumbing.)

Credit this account with:

All advances received from REA, for which Notes are pledged, constituting a Loan from the Government. (Contra Account - 120.5 Cash Special Installation Account.)

128 INTEREST RECEIVABLE

*Debit this account with:

All interest which is due or accrued on Consumers' Notes at the end of the Accounting Period. (Contra Account - 526 Non-operating Revenue.)

* Note: At the end of each accounting period, interest on Consumers' notes for Wiring and Plumbing Installation falling due within the period, should be calculated, and a Journal Entry made setting up the amount of interest receivable.

Credit this account with:

All interest payments received from Consumers on Wiring and Plumbing Installation Notes. (Contra Account - 121.2 Installation Loan Payment Fund - Wiring and Plumbing.)

229.2 ACCRUED INTEREST ON WIRING AND PLUMBING OBLIGATION REA

Debit this account with:

All payments of interest made to REA on outstanding Wiring and Plumbing Installation Loan. (Contra Account - 121.2 Installation Loan Payment Fund - Wiring and Plumbing.)

* Note: At the end of the accounting period, when interest has been calculated on Wiring and Plumbing obligations, a journal entry should be made to credit Accrued Interest Account 229.2 and debit Account 527 Non-operating Revenue Deductions.

Credit this account with:

All interest accrued on Wiring and Plumbing Obligations maturing within the accounting period. (Contra Account - 527 Non-operating Expense.)

225.2 MATURED LONG-TERM DEBT - WIRING AND PLUMBING

Debit this account with:

All amounts paid to REA on account of Wiring and Plumbing payments due REA not remitted at maturity. (Contra Account - 121.2 Installation Loan Payment Fund - Wiring and Plumbing.)

Credit this account with:

Payments due REA on Long-term Debt Wiring and Plumbing and not paid at date of maturity. (Contra Account 213.2 Wiring and Plumbing Obligation.)

226.2 MATURED INTEREST - WIRING AND PLUMBING

Debit this account with:

All amounts paid to REA on account of Wiring and Plumbing interest not remitted at maturity. (Contra Account - 121.2 Installation Loan Payment Fund - Wiring and Plumbing.)

Credit this account with:

All interest due REA on Long-term Debt - Wiring and Plumbing not paid at date of maturity. (Contra Account - 229.2 Accrued Interest on Wiring and Plumbing Obligation.)

PROPOSED SUBSIDIARY LEDGER SHEET FOR WIRING AND PLUMBING COLLECTIONS

NAME OF MEMBER _____ ADDRESS _____
 AMOUNT OF NOTE \$114.00 DATE OF NOTE 12/10/39 MONTHLY PAYMENT \$4.10 Rate of INTEREST 6%

Payment Due 1940	Amount of Payment Due		Date Paid 1940	Amount Paid	Balance Due on		Arrears
	Principal	Interest			Principal		
Jan. 10	\$3.53	.57	Jan. 10	\$4.10	\$110.47		
Feb. 10	\$3.55	.55	Feb. 10	\$4.10	\$106.92		
Mar. 10	\$3.57	.53					\$4.10

Examples for computing interest on the Wiring and Plumbing and
Appliance Loans are as follows:

MONTHLY PAYMENTS

Balance 114.00 Each payment \$4.10 for 30 months @ 6%

First Month

$$114 \times \frac{6\%}{12} = \text{Interest for 1 month}$$

$$114 \times \frac{1\%}{2} = .57$$

$$4.10 - .57 = 3.53 \quad (\text{applied to principal})$$

$$114.00 - 3.53 = 110.47 \quad (\text{unpaid balance})$$

Second Month

$$110.47 \times \frac{1\%}{2} = .55$$

$$4.10 - .55 = 3.55 \quad (\text{applied to principal})$$

$$110.47 - 3.55 = 106.92 \quad (\text{unpaid balance})$$

Third Month

Misses Payment

Fourth Month

$$106.92 \times 1\% (2 \times \frac{1\%}{2}) = 1.07$$

$$8.20 (2 \times 4.10) - 1.07 = 7.13 \quad (\text{applied to principal})$$

$$106.92 - 7.13 = 99.79 \quad (\text{unpaid balance})$$

At this time an additional 10.00 payment is made

$$99.79 - 10.00 = 89.79 \quad (\text{unpaid balance})$$

Fifth Month

$$89.79 \times \frac{1\%}{2} = .45$$

$$4.10 - .45 = 3.65 \quad (\text{applied to principal})$$

$$89.79 - 3.65 = 86.14 \quad (\text{unpaid balance})$$

SEMIANNUAL PAYMENTS

Balance 117.20 Payable S/A over 5 years @ 6%

First Period (6 months after date of Note)

$$117.20 \times \frac{6\%}{12} \times 6 \text{ mos. OR}$$

$$117.20 \times 3\% = 3.52$$

$$11.72 - 3.52 = 8.20 \text{ (applied to principal)}$$

$$117.20 - 8.20 = 109.00 \text{ (unpaid balance)}$$

Second Period

$$109.00 \times 3\% = 3.27$$

$$11.72 - 3.27 = 8.45 \text{ (applied to principal)}$$

$$109.00 - 8.45 = 100.55 \text{ (unpaid balance)}$$

Third Period

Misses Payment

Fourth Period

$$100.55 \times 6\% (2 \times 3\%) = 6.03$$

$$23.44 (2 \times 11.72) - 6.03 = 17.41 \text{ (applied to principal)}$$

$$100.55 - 17.41 = 83.14 \text{ (unpaid balance)}$$

At this time an additional 10.00 is paid on principal

$$83.14 - 10.00 = 73.14 \text{ (unpaid balance)}$$

Fifth Period

$$73.14 \times 3\% = 2.19$$

$$11.72 - 2.19 = 9.53 \text{ (applied to principal)}$$

$$73.14 - 9.53 = 63.61 \text{ (unpaid balance)}$$

P A R T II

CHAPTER 1

PURCHASING PROCEDURE

A. General Comments

We strongly recommend that the purchase-order system described in this chapter be used by all borrowers. When purchases are arranged verbally or by letters, errors are likely to occur, and the work of bookkeepers and auditors is made more difficult.

Purchasing arrangements are highly important because a business enterprise cannot operate efficiently unless purchases are controlled by the Management, made economically and in such a manner as to maintain good public relations.

The signer and countersigner of checks actually have little real control over expenditures unless the creation of obligations paid for by the check is previously controlled.

If material has been delivered (or even ordered) the check signers are practically forced to sign, even though they disapprove of the expenditure. Otherwise the association would probably be sued and payment enforced. It is obvious, therefore, that some one person (usually the Superintendent) should be delegated to make all purchases for the association and that a procedure suitable to the project should be established to control purchases. We recommend the purchase-order system described herein, because we believe that in most projects it provides the most effective and the simplest system of control.

B. Purchasing Procedure

The details of buying arrangements will, of course, depend upon the size of the system and the ideas of the local management, but the typical method we describe has operated very well in many systems.

1. Typical Requisition Procedure

Requisition Form No. 1, attached, is prepared by Line Foreman or Storekeeper (on large systems) or by others authorized by the Superintendent to issue requisitions. An original and a carbon copy are made, and for convenience the forms are often "padded" so that the original is torn out and the carbon copy remains in the book. In any event, a copy is retained by the person preparing the requisition, and the original is given to the manager (or the person he delegates).

The requisition should contain a complete description of the articles to be ordered, the estimated cost, the date delivery is desired, and any other pertinent details.

If the manager approves, he initials the requisition, and he or the person delegated procures at least three bids or quotations as described in Operations Memorandum #63 and in the following paragraph.

After the supplier is determined, the name of the firm or person from whom the purchase is to be made will be written on the requisition and sent to the bookkeeper or whoever is to prepare the purchase order. Usually the vendor's quotation is sent along with the approved requisition.

2. Typical Purchase-order Procedure

The bookkeeper, upon receipt of the approved requisition, prepares Form 2, Purchase Order, with an original and three copies. Orders should be consecutively numbered so that any missing orders will be immediately apparent. The original is mailed or delivered to vendor. The first carbon is attached to Form No. 1 and retained by the Bookkeeper. The second copy is sent to the person who wrote the requisition. The third copy is sent to the storekeeper or the person who is to receive the material. Upon delivery, the shipment is checked against the order, which is then returned to the bookkeeper with a notation as to complete delivery or any shortage.

3. Invoices and Delivery Statements

The vendor receiving the order will prepare and submit invoices in duplicate as requested on the order form. The bookkeeper holds the invoice until the purchase order certifying delivery or shortage is received. The initials of those responsible are then affixed to the invoice, which is rubber-stamped as follows:

Material Received
Prices O.K.
Extensions Checked
Approved for Payment

This is to certify that (a) the material was received in good order; (b) the prices, discounts, etc., are in accordance with the purchase order; (c) the extensions have been checked and found correct, and (d) payment of the invoice is approved, and that the preparation of the check in payment is in order.

4. Elements of a Satisfactory Purchase Order

All purchase orders should contain the essentials of a satisfactory contract, such as accurate description and adequate terms and provisions. The following are always important: (a) Complete specifications (including a list of drawings, if any, or catalog numbers, etc.; (b) time, place and method of delivery; (c) full data as to prices, terms, discounts, etc.; (d) tests, inspection, acceptance, guarantees; (e) possible provisions as to labor conditions, supervision, etc.; (f) licenses, permits, taxes, bonds, etc.; (g) deposits or returns; (h) insurance, etc.

The purchase-order form attached (Form 2) provides spaces to fill in typical provisions such as terms, method of shipping, etc. Special requirements such as the submission of duplicate invoices and the "Buy American" provision are also provided for in this order form.

5. Miscellaneous Comments on Purchase-order System

a. Responsibility for Purchasing

Many difficulties will be avoided if buying is restricted to designated persons and responsibility also fixed for the proper preparation and recording of requisitions and purchase orders. It should be understood by all concerned that the association will not be responsible for any material delivered without a purchase order, and any person so ordering will be held personally responsible, rather than the cooperative.

The Board of Directors should authorize its Superintendent (or the person he delegates) to buy within specified limits and should authorize important purchases by specific resolution of the Association. If feasible, the responsibility for the purchase of, the receipt of, and the payment for merchandise should be divided among different persons.

b. General Use of Purchase Orders

It is desirable that every obligation of the association, except petty cash advances and payrolls, should be covered by purchase orders even though the vendor's copy may not be issued in some cases. Typical instances might be insurance ordered by special requisitions supplied by the seller, manufacturers' order blanks, tax payments, licenses, etc. In such cases the original may be discarded and copies used as usual. With such procedure and with actual or estimated costs shown as mentioned below, the purchase-order file of open orders will always show all commitments. Upon delivery and payment, orders are transferred from an open to a closed purchase-order file.

The desirability of covering obligations with purchase orders applies to contracts, personal services, taxes, etc., and the office copy of every purchase order shall carry an actual or estimated amount so that outstanding orders will indicate the true commitments of the association. Purchase orders covering contracts should read: "Furnish _____, as provided by contract dated _____ between _____ and _____."

c. Competition

Prices are reduced when buyers procure and take advantage of the best offers available and get all possible discounts. It is therefore desirable to procure competitive bids. Even on repair parts and specified items, competition is usually procurable. Three bids should be procured on items costing \$10.00 or over. On smaller or cash items, prices may be procured by telephone and written on the requisition or office copy of purchase order. Any responsible vendor who wishes to do so should be allowed to submit bids, except when expensive plans and specifications must be issued. The procedure concerning contracts or purchases for construction is fully described in instructions issued by the Division of Cooperative Operations and must be studied and followed. Purchases should be combined when feasible to procure quantity discounts, and suitable stocks kept on hand will minimize "piecemeal" buying at high prices.

d. Cash Purchases

When the Superintendent believes a cash purchase is desirable (repairs, etc.) he so states on requisition. The Superintendent may then authorize a cash advance for traveling expense and purchase. The bookkeeper draws and "cashes" a check. The buyer procures a receipt, and after purchase, the expenditure is covered by a purchase order charged to the enterprise benefited, and any balance is returned and credited to the cash account.

Purchases from petty cash are the most likely to be poorly

recorded, and it is important that instructions included in this Handbook under "Petty Cash" be followed.

e. Special Purchase-order Form

When purchases are made from small vendors who do not issue invoices, it is convenient to have a special type of purchase order whereon the vendor certifies as to price and delivery, and thus converts the purchase order into an invoice. Such a statement should read as follows: "Vendor's Certificate: The items listed in the above order were delivered, as instructed in the order, on _____, 19____, and the amount shown hereon is correct. (Signed) _____, Vendor."

The Vendor's Certificate may be added to the regular purchase-order form by a rubber stamp.

f. Small Retail Purchases

In connection with small cash purchases, a delivery ticket approved by the Superintendent (or the person delegated) may be used as a purchase requisition. Typing is avoided by affixing such a delivery ticket to a purchase-order form so that the purchase-order files will be complete whether the original copy is issued to the vendor or not.

g. Credits, Returns, and Changes

Regular purchase orders or memoranda of change orders should be issued to provide for such items so that the purchase-order files will be correct.

h. Group-purchasing Arrangements

Whenever it is feasible to combine the purchases of REA cooperatives, the advantages of volume production and the increased bargaining power of combined buying will obviously result in lower prices. The Cooperatives' Operations Division has arranged group-purchasing arrangements for meters, safes, stationery, membership certificates, etc., and advises the projects in such matters by Operations Bulletins.

1. Gasoline and Oil Purchases

Such purchases can be handled on confirming orders and disbursed without material requisitions. However, an accurate record of gasoline, oil, tire repairs, and other transportation expense should be kept so that this expense may be charged against car numbers, work orders, and account numbers as described in Finance Division Bulletin No. 12 and Chapter 2 of this manual.

P A R T II

CHAPTER 2

WORK-ORDER AND STORE-RECORDS PROCEDURE

1. Bulletins Previously Issued on Work Order Procedure by the Division of Cooperatives' Operations and by the Finance Division

Work-order procedure cannot be handled effectively or conveniently unless the essential steps are coordinated and assigned to linemen, bookkeepers, superintendents, REA examiners and auditors, etc., on the basis of which can best execute a particular task and how it can be done must efficiently. For example, cash values need not appear on linemen's daily reports, because the bookkeeper can more easily make such computations. The forms described in this chapter are therefore designed to provide for that arrangement and many others which save the time of bookkeepers, examiners, and auditors.

Finance Division Bulletin No. 12 was issued to supplement Operations Memorandum No. 2 and No. 59 (concerning Work-order Procedure) by describing methods and forms which assist the preparation of work orders and the maintenance of office records by the borrowers and REA.

Finance Division Bulletins Nos. 8 and 9 have explained that new items as follows have been added in the revised Requisition Form (FI-121A), the revised Expenditure Report Form (FI-121B) and Collateral Forms such as Budgets, Check Registers, Receipt Registers, etc.:

Item 14 - Materials

Item 15 - Labor and Other Charges

Heretofore, as explained in Finance Division Bulletin No. 8, material has been purchased from construction funds advanced for several purposes, as well as from general funds. Consequently, and because many projects lack adequate stock-room control and the old FI-121 Forms made no provision for a "Stores" Account, it was very difficult for bookkeepers, examiners, and auditors to reconcile advances and expenditures by approved purposes, stock-room inventories, work orders, etc. The revised procedures for work orders and stores recognize the fact that there should be adequate but not excessive supplies of material in stock and that the cost of that stock should appear separately in requisitions and reports to REA.

Under the revised system, the total advances made by REA for purposes 14 and 15 will at all times be accounted for either by approved work orders, material in stock, or cash on hand. With the distribution of material from stock controlled by an adequate system of project stock-room records, work orders, etc., as described in this chapter, we are confident that better records will be provided and clerical work in the projects, in REA offices, and by auditors will be reduced.

2. Bookkeeping Procedures and Forms to Coordinate Work Orders with Other Records

A. General Description of Report and Distribution Forms

Cost accounting for additions to fixed assets should record the cost of labor, equipment, materials and supplies, and overhead for each unit or job under construction. To accomplish this with the least effort, records showing the distribution between

work orders and account numbers, of time, transportation, and materials used should be submitted daily by each employee or foreman and summarized weekly or monthly in accordance with a definite procedure. The daily reports need not show dollar values, as the bookkeeper will compute these in the summaries. Monthly statements and reports are prepared from the accumulated daily reports, and such summaries serve to advise the local managements and REA as required of expenditures for construction work on completed and uncompleted units or jobs. Data thus recorded also meet the requirements of the Federal Power Commission and State Commissions. It appears that the reports and forms described herein are the minimum which will provide such information effectively, and that the bookkeeping work involved in making such reports is very much less than the work of reconstructing required reports in situations where proper records have not been kept.

B. How to Procure these Forms (See also separate chapter on forms.)

None of the forms described in this chapter are furnished by REA. Each borrower will, however, receive with Finance Division Bulletin No. 12 a description of each form, and samples will appear in a book of standard forms to be issued shortly. If you buy forms from a printer who guarantees that forms sold have REA approval, you will be able to tell by comparison with the samples whether forms delivered are in accord with the guarantee. The forms may, of course, be purchased from local printers or mimeographed, but the cost should be much less if they are purchased from printers which specialize in such work and print in economical quantities.

C. Description and Use of Forms Used in Connection with Work Orders

1. Maintenance Job Order

This form is used to report on maintenance and operation jobs. The form preferred by REA and its use will be described in a bulletin to be issued shortly. The form will also be included in a book of sample forms which is in preparation. The procedure is similar to the lineman's daily report described herein.

2. Staking Sheet (With Column Headings which Match the Front of Construction Work Order)

The form is made up by the lineman (or by the superintendent on a Class B extension) to indicate material used. From this, the estimated cost on the front of Construction Work Order is computed.

The project office file on each Work Order should contain:

- a. Staking Sheet
- b. Work Order showing REA approval
- c. Substantiating Documents

Such records will save much time if property is later retired, as well as assist the current work of bookkeepers and auditors.

3. Lineman's Daily Report (Of Material, Labor, and Transportation with schedule of Items which Ties in with "Nut and Bolt" Inventory on Back of Work Order.)

This form is made up by each lineman or line-crew foreman to show the stock-room items, etc., chargeable to each Work

Order each day. From this and stock records, etc., the bookkeeper makes up the "Nut and Bolt" inventory on back of Work Order.

Unless these reports are turned in correctly and regularly, there is no hope of maintaining correct records, and superintendents should insist that linemen (or storekeepers) must assist the bookkeeper by submitting prompt and accurate reports.

The daily field time sheets and material reports are the basic sources for the accumulation of labor and material costs. From these reports, the bookkeeper allocates time, transportation, and materials used to specific work orders and to construction or general-expense accounts. The dependability of labor and material data is limited by the accuracy of the field reports, and it is necessary, therefore, that the foreman and employees exercise care in their preparation.

4. Card of Stock-room Items Included in Contract Assemblies

This is an optional form which some offices find useful to make conveniently available the items included in assemblies which are frequently used. The construction contract provides such information, and if the contract is always available, this card is unnecessary. If it is not, it is useful to assist conversion from units of property to stock-room items, or vice versa.

5. Perpetual Inventory Card

This card maintains stock-room control and provides unit costs for pricing items of material on the back of the Work Order. One of these cards should be set up for each item of material

carried in stock, and entries made thereon as purchases are made or as stock is issued. Several manufacturers have worked with REA and in the offices of borrowers to develop visible-record inventory cards maintained in ring binders or visible files. REA has made arrangements as described in Bulletin 10A whereby manufacturers of visible equipment will send descriptions and prices of their products to all borrowers.

We strongly recommend that a visible system of handling these cards be used. The extra expense of a few cents per card is more than offset by time saved each week. The visible system also provides ticklers for reordering, etc. The prong-binder book offered by many printers is convenient, requires less space, and costs less than most drawer systems.

6. Daily Time Summary

This sheet provides data required for Social Security and insurance reports. The bookkeeper uses this form for the distribution of hours turned in daily on Form No. 3. The time of the superintendent, office staff, etc., is prorated to work orders as described in a paragraph following.

7. Daily Summary of Materials Used and Retired

This form assists the bookkeeper in tabulating from the Daily Report the total quantity of each stock-room item used daily on all Work Orders for transfer to the inventory card. When the volume of work is very small, it will be feasible to post materials and time mentioned in the preceding paragraph directly from the

lineman's report to periodical summaries (Paragraph 9), but this report will usually save time for bookkeepers and auditors.

8. Monthly Payroll Summary

On this form, the bookkeeper tabulates monthly or over the pay period the total payroll of all employees and its distribution by assembling data from Daily Sheets. It also provides data for Social Security and Insurance Reports.

9. Monthly Cost Summary of Materials

On this form, the bookkeeper tabulates monthly the total cost of material used and its distribution to each Work Order and type of Work Order or other construction by assembling data from the daily summaries of materials.

10. Monthly Summary and Distribution of Transportation Costs

On this form, the bookkeeper tabulates monthly the total cost of transportation and its distribution to account numbers and to Work Orders by assembling data from Work Orders and Daily Reports.

11. Stores Requisition

In projects sufficiently large to have a storekeeper, it is desirable that each person receiving material from the stock-room turn in this requisition form to the storekeeper in lieu of the lineman's report to the bookkeeper. The storekeeper will then report to the bookkeeper.

12. Purchase Order

The use of requisitions and purchase orders is more fully described in the chapter on "Purchasing Procedure." The

distribution of work (pricing, etc.) between the storekeeper (if any) and the bookkeeper will be determined by the superintendent.

3. Proration of Overhead

It has been the practice in many projects to add 10 percent to the direct costs of work orders to eliminate the inconvenience of distributing the time of superintendents and bookkeepers; engineering other than payroll; miscellaneous office expense, including office salaries; travel expense other than trucks, and some part of rent, light, telephone, etc. These items are usually described as "overhead," and it has been considered that 10 percent of direct Work-order cost would usually cover the portion chargeable to Work Orders. That is frequently not the case. Furthermore, the proration of overhead on a basis which includes material cost seems arbitrary, as described in paragraph 6 on page 43 of the Uniform System of Accounts of the Federal Power Commission.

The procedure which should be employed is as follows:

The superintendent will estimate the total amount of the various overhead expense items chargeable to work orders each month as follows:

<u>Item</u>	<u>Total Est. Expense</u>	<u>% Chargeable to Work Orders</u>	<u>Amt. Chargeable to Work Orders</u>
Supt's. Salary			
Bkkpr's. "			
etc.			
Total Chargeable to Work Orders			\$ _____

This total will then be prorated monthly on the basis of estimated labor on each Work Order and the appropriate amount shown on each.

The superintendent will then submit with Work Orders an individual receipt as follows:

"I hereby acknowledge receipt of \$ _____
in payment of salary or wages for the month
of _____, which is chargeable
to work orders."

If it is impracticable to procure such receipts, a certificate signed by the superintendent may certify the amount chargeable to work orders, as is now done with mileage.

Under this method, overhead which is allowed from construction funds can be properly credited and charged.

P A R T II

CHAPTER 3

BOOKKEEPING AND RECORD FORMS USED BY BORROWERS

1. The Importance of Standardized and Convenient Forms

It is obvious that printing costs reduce materially through the use of a few standard and suitable forms printed in quantity, instead of the hundreds of varieties and sizes which have been used. The printing cost is, however, a very minor matter as compared to the time saved by a coordinated system of record-keeping in which purchase orders, receipted invoices, requisitions, expenditure reports, work orders, stock-room records, payroll, transportation and overhead expense records, etc., produce without duplication or wasted effort information required by the local managements and REA auditors, as well as for reports on operation, Social Security, insurance, tax returns, etc.

In view of the benefits for all concerned, we request your cooperation in the use of standard forms, unless special conditions require variations and REA approves changes in forms. If changes are desirable, we should bring them to the attention of other borrowers and their printers, and add the new or revised form to the list in Paragraph 4 and the sample book mentioned in Paragraph 3.

2. Progress on Standardization

During the past few months, REA has examined hundreds of forms which the local managements and printers have developed, and is in a position to compare the costs and advantages or disadvantages of the

various methods used. From the forms submitted or suggested during conferences with superintendents and bookkeepers, we have selected those which have produced the best results and are suitable for most borrowers using the bookkeeping procedures described in this manual. The forms selected have been coordinated with REA forms and reports, the standard classification of accounts, and the requirements of the auditors. Bulletins which describe the standardized forms recommended are issued to borrowers and printers as rapidly as possible, or whenever the need for additional forms or changes in forms develops.

Many of the forms selected are described in other chapters of this manual (work orders, purchasing, bookkeeping, etc.). A few are still undergoing study and revision and will be described in bulletins to be issued shortly and included in a book of sample forms which is described in a paragraph following.

As a part of the "standardizing" process, we have reviewed hundreds of forms sold by printers which specialize in printing the forms purchased by borrowers. We found that many of the forms were incorrect or unsuitable for present bookkeeping procedures, and we asked the printers to discontinue forms which waste the time of bookkeepers, examiners, and auditors. To make certain that such forms are discontinued, our bulletins have recommended that forms be purchased from printers which guarantee that all forms sold will have REA approval prior to delivery. Of course, we approve the delivery of superseded forms in small quantities while new forms are in preparation, but except on forms required locally which the local management is in a position to approve, the printers'

guarantee of REA approval will protect you and assure the delivery of simplified and correct forms.

3. Book of Sample Forms

As soon as this standardization of forms is completed and correct forms are available, you will receive a book of samples of approved typical forms. You can then determine whether forms delivered are correct, and REA can discontinue the tedious task of checking proofs submitted by printers. We will also upon request inform you as to which printers have had their forms approved, subscribe to the guarantee system, and deliver forms similar to approved samples.

4. List of Standard Forms Usually Required and Purchased by Borrowers

(Note: The forms marked (x) are required when the expenditure of Construction Loan Funds begins. The other forms are used in connection with the expenditure of General Funds and Operating Records.)

For your convenience, we summarize forms usually required and used as described elsewhere in this manual.

<u>Type and Name of Form or Equipment</u>	<u>Average Quantity Usually Required</u>
A. <u>Bookkeeping Forms</u>	
1. (x)General Ledger Sheets	300
2. (x)Journal Sheets	100
3. (11x14 current work binders and storage binders with alphabetical and numerical indices will be required for the forms mentioned above.)	
4. (x)General and Operating Fund - Cash Received	100
5. (x)General and Operating Fund - Accounts Payable Register	100
6. (x)Special Construction Fund - Cash Received and Budget Control	100



<u>Type and Name of Form or Equipment</u>	<u>Average Quantity Usually Required</u>
A. <u>Bookkeeping Forms (Cont'd)</u>	
7. (x)Special Construction Fund Check Register	100
8. (x)Construction Fund - Accounts Payable	100
9. (x)General and Operating Fund Check Register	100
10. (x)General and Operating Fund Check Register for Generating Plants and Special Facilities	100
11. (11x24 current work binder and storage binder, together with division sheets will be required for these columnar forms.)	
12. E.H.F.A. Account Ledger Sheets	1 per Account
B. <u>Purchasing and Disbursing Forms, Receipts, etc.</u>	
1. (x)Purchase Order Forms, in triplicate	500
2. (x) Purchase Requisition	500
3. (x)Voucher Checks, in triplicate (Construction Fund)	500
4. Voucher Checks, in triplicate (General Fund)	500
5. (x)Receipts for Expenditures	500
6. (x)Receipts for Payment of Wages and Social Security Deductions	500
7. (x)Counter Receipts	500
8. (x)Certificates of Deposit	1 per Member
9. (x)Membership Certificate	1 per Member
C. <u>Miscellaneous Forms</u>	
1. (x)Consumer's Record Card (Membership Record), etc.	1 per Member
2. (x)Transformer Record Card	1 per Transformer
3. (x)Meter Record Card	1 per Meter
4. Utilization Card (UT-60)	1 per Member
5. Installation and Removal Record	1 per Member
6. Failure Report (EO-91)	100
7. (x)Application for Electric Service	1 per Member
8. Intention to Discontinue Service	100
9. (5x8 file books and division index will be needed for the above cards.) (In larger projects it will be permissible to purchase a drawer file for the stor- age of the cards described above or to purchase drawers for Mosler Safes.)	

<u>Type and Name of Form or Equipment</u>	<u>Average Quantity Usually Required</u>
D. <u>Work-order Procedure</u>	
1. (x) Staking Sheet	3 per Member
2. Estimate Construction Work Order	3 for each Class B or Line-Im- provement Work Order
3. Final Construction Work Order	Do.
4. Estimate Retirement Work Order	100
5. Final Retirement Work Order	100
6. Work Order Schedule	100
7. (For above forms - Storage Binder 8 $\frac{1}{2}$ x14 with ACCO Fastener at top.)	
8. Maintenance Job Order	200
E. <u>Office Forms Which Build Up Work Orders or Record Data</u>	
<u>Therein</u>	
1. (x) Daily Report of Material, Labor and Mileage	300
2. Foreman's Report	300
3. Attached Material Schedule	300
4. Assembly Unit Make-Up Card	100
5. (x) Daily Time Summary	300
6. (x) Daily Summary of Materials Used and Retired Materials	300
7. (x) Employee's Record Card with data for Social Security	1 per Employee
8. (x) Monthly Payroll Summary	25
9. (x) Monthly Summary Cost of Materials	25
10. (x) Monthly Summary of Transportation Cost	25
11. (11x14 current work binders, storage binders and division sheets will be required for the above.)	
12. Stores Requisition (in lieu of lineman's report of material used in large projects with store- keeper. This form also listed as B-2.)	300
13. Return to Stores	300
14. (x) Perpetual Inventory Stock-Record Card	500
15. (x) Alternative Inventory Card for Visible Filing	500
16. (x) Prong binder of visible file for Inventory Cards (The visible system, Items 15 and 16, is recommended in preference to plain-card, Item 14.)	1

<u>Type and Name of Form or Equipment</u>	<u>Average Quantity Usually Required</u>
<u>F. Wiring and Plumbing Forms</u>	
1. Wiring Contract (UT-SR3)	2 per Wiring Loan
2. Plumbing Contract (UT-9R)	2 per Plumbing Contract
3. Members' Credit Statement (UT-4R)	1 per Member Loaned
4. Certificate of Satisfaction (UT-7R2)	1 per Member Loaned
5. Consumers's Note (LE-166R)	1 per Member Loaned
6. Members' Alternate Agreement (UT-6C))
7. Application for Temporary Service (UT-6T))
8. Wiring Inspection Record (UT-22))
9. Wiring Inspector's Book) See Manual
10. Weekly Report to REA (UT-46)) UT-B-1R3
11. Written Request for Inspection)
12. Wiring Inspector's Weekly Report)
(These forms and their use are described in "Manual of Wiring Procedure," UT-B-1R3.)	

G. Standardized Meter-Reading, Billing and Collecting System as Described in Finance Division Bulletin No. 10 Will Require the Following Material:

1. Consumer's Ledger Cards	1 per Member
2. Consumer's Meter-Reading Double Post Cards	1 Card per Member per Month
3. Consumer Post-Card Bills	1 per Member per Month
4. Division Indices and File Equipment for Consumer Ledger Cards as described in Bulletin No. 10; metal flags; date stamps and accessories--See Finance Division Bulletin No. 10.	
5. Meter-Reading Sheets	100
6. Daily Analysis - Cash Received	500

5. Method of Procuring Other Forms Required

Various other forms are required in addition to those described above and are procured by borrowers as follows:

a. Forms Furnished by REA

Many forms such as legal documents and the forms described in this booklet (FI-121A&B, FI-40, FI-53, etc.) and others are sent

to borrowers by REA at the time they are needed. Accompanying bulletins or instructions will fully explain the use of such forms and the additional forms as may be required.

b. Forms Produced by Borrowers

Many borrowers mimeograph certain forms in accordance with descriptions provided in REA bulletins, or by the Bookkeepers' Manual. There is, of course, no objection to this, but we think that as forms are standardized and produced in greater quantities, costs will reduce so that correct and approved forms of good appearance can be purchased for less than the cost of mimeographs (if labor cost is considered). When such is the case, it is of course desirable to purchase the forms as described in the paragraph following and thus have available the time of bookkeepers and others for more productive purposes than mimeographing.

c. Forms Purchased Locally

There is considerable amount of printed matter which borrowers are in position to approve and which is purchased locally, such as notices, by-laws, etc.. It is usually not desirable to so purchase the forms scheduled in Paragraph 4, because the cost of printing is frequently 5 to 10 times greater than when forms are purchased from printers which specialize in such forms, print in quantity, and guarantee that forms are correct and approved as described in Paragraph 2.

12/14

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